

Note 14: Other Assets

(Canadian \$ in millions)	2007	2006
Accounts receivable, prepaid expenses and other items	\$ 5,415	\$ 4,900
Accrued interest receivable	1,371	1,346
Due from clients, dealers and brokers	460	816
Pension asset (Note 23)	1,094	1,195
Total	\$ 8,340	\$ 8,257

Note 15: Deposits

(Canadian \$ in millions)	Demand deposits				Payable after notice		Payable on a fixed date		Total	
	Interest bearing		Non-interest bearing		2007	2006	2007	2006		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Deposits by:										
Banks	\$ 349	\$ 437	\$ 298	\$ 290	\$ 1,001	\$ 661	\$ 32,452	\$ 25,244	\$ 34,100	\$ 26,632
Businesses and governments	7,155	5,600	9,719	9,870	19,783	19,304	85,091	66,074	121,748	100,848
Individuals	3,405	3,177	5,824	5,181	31,114	32,274	35,859	35,736	76,202	76,368
Total	\$ 10,909	\$ 9,214	\$ 15,841	\$ 15,341	\$ 51,898	\$ 52,239	\$ 153,402	\$ 127,054	\$ 232,050	\$ 203,848
Booked in:										
Canada	\$ 10,346	\$ 8,899	\$ 13,762	\$ 12,683	\$ 36,579	\$ 35,523	\$ 81,690	\$ 75,866	\$ 142,377	\$ 132,971
United States	174	181	2,078	2,655	14,750	16,237	41,824	26,537	58,826	45,610
Other countries	389	134	1	3	569	479	29,888	24,651	30,847	25,267
Total	\$ 10,909	\$ 9,214	\$ 15,841	\$ 15,341	\$ 51,898	\$ 52,239	\$ 153,402	\$ 127,054	\$ 232,050	\$ 203,848

Included in deposits as at October 31, 2007 and 2006 are \$94,911 million and \$71,387 million, respectively, of deposits denominated in U.S. dollars, and \$11,778 million and \$13,010 million, respectively, of deposits denominated in other foreign currencies.

Change in Accounting Policy

The new CICA Handbook rules allow management to elect to measure financial instruments that would not otherwise be accounted for at fair value as trading instruments, with changes in fair value recorded in income provided they meet certain criteria. Financial instruments must have been designated on November 1, 2006, when the new standard was adopted, or when new financial instruments were acquired, and the designation is irrevocable.

We issue structured notes that include embedded options. We enter into derivatives which manage our exposure to changes in the structured note fair value caused by changes in interest rates. The structured notes are designated as trading under the fair value option, which better aligns the accounting result with how the portfolio is managed. These notes are classified as deposits. The fair value and amount due at contractual maturity of these notes as at October 31, 2007 were \$762 million and \$791 million, respectively. The impact of recording these notes as trading was an increase in non-interest revenue, trading revenues of \$8 million for the year ended October 31, 2007. The increase was offset by a loss on the derivatives.

On November 1, 2006, we remeasured the portfolio of structured notes at fair value. The net unrealized loss of less than \$1 million was recorded in opening retained earnings.

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest.

Deposits payable on a fixed date are comprised of:

- Various investment instruments purchased by our customers to earn interest over a fixed period, such as term deposits and guaranteed investment certificates. The terms of these deposits can vary from one day to 10 years.
- Federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 2007, we had purchased \$1,937 million of federal funds (\$3,388 million in 2006).
- Commercial paper, which totalled \$685 million as at October 31, 2007 (\$1,298 million in 2006).

Included in our deposits payable on a fixed date as at October 31, 2007 were \$132,501 million of individual deposits greater than one hundred thousand dollars, of which \$61,312 million were booked in Canada, \$41,301 million were booked in the United States and \$29,888 million were booked in other countries. We had \$105,377 million of such deposits as at October 31, 2006, of which \$54,769 million were booked in Canada, \$25,958 million were booked in the United States and \$24,650 million were booked in other countries.

Note 16: Other Liabilities

(Canadian \$ in millions)	2007	2006
Acceptances	\$ 12,389	\$ 7,223
Securities sold but not yet purchased	25,039	15,398
Securities lent or sold under repurchase agreements	31,263	31,918
	\$ 68,691	\$ 54,539

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as a loan in our Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities sold but not yet purchased represent our obligation to deliver securities that we do not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded in trading revenues in our Consolidated Statement of Income.

Securities Lent or Sold under Repurchase Agreements

Securities lent or sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. The obligation to repurchase these securities is recorded at the amount owing. The interest expense related to these liabilities is recorded on an accrual basis.

Included in non-controlling interest in subsidiaries as at October 31, 2007 were capital trust securities totalling \$1,060 million (\$1,060 million in 2006) that form part of our Tier 1 regulatory capital (see Note 19).

Customer Loyalty Program

We record the liability associated with our credit card customer loyalty program rewards in the period in which our customers become entitled to redeem the rewards. We estimate the liability using the expected future redemption rate and apply the cost of expected redemptions. Our estimate of the expected redemption rate is based on statistical analysis of past customer behaviour. The costs of our loyalty program are recorded as a reduction in non-interest revenue, card fees in our Consolidated Statement of Income. The liability is included in other liabilities in our Consolidated Balance Sheet.

Change in Accounting Estimate

During the year ended October 31, 2007, we increased the liability for future customer redemptions related to our loyalty rewards program in Personal and Commercial Banking Canada's MasterCard business. The impact of this change on our Consolidated Statement of Income for the year ended October 31, 2007 was a reduction in non-interest revenue, card fees of \$185 million, a decrease in the provision for income taxes of \$65 million and a decrease in net income of \$120 million.

During the year ended October 31, 2005, we increased the estimate of the liability for future customer redemptions related to our loyalty rewards program. The impact of this change on our Consolidated Statement of Income for the year ended October 31, 2005 was a reduction in non-interest revenue, card fees of \$40 million, a decrease in the provision for income taxes of \$14 million and a decrease in net income of \$26 million.

(Canadian \$ in millions)	2007	2006
Other		
Accounts payable, accrued expenses and other items	\$ 7,760	\$ 7,196
Accrued interest payable	1,893	1,441
Non-controlling interest in subsidiaries	1,329	1,359
Liabilities of subsidiaries, other than deposits	387	112
Pension liability (Note 23)	11	20
Other employee future benefits liability (Note 23)	675	630
Total	\$ 12,055	\$ 10,758

Note 17: Restructuring Charge

On January 31, 2007, we recorded a restructuring charge of \$135 million in our Consolidated Statement of Income. The objectives of the restructuring are to enhance customer service by directing spending and resources to front-line sales and service improvements, creating more efficient processes and systems and continuing to accelerate the pace of growth.

The charge relates to the elimination of approximately 1,000 positions in primarily non-customer-facing areas of the company across all support functions and business groups. Of the charge, \$117 million relates to severance-related costs, \$11 million is associated with premises-related charges and \$7 million relates to other costs.

The restructuring charge has been recorded in the Corporate Services operating group. The actions under the restructuring program are expected to be substantially complete by the end of the first quarter of 2008.

Premises-related charges include lease cancellation payments for those locations where we have legally extinguished our lease obligation as well as the carrying value of abandoned assets.

We engaged a professional services firm to provide us with strategic and organizational advice with respect to the restructuring initiatives. A charge of \$7 million for these services has been included in the restructuring charge.

During the year, we changed our estimate for restructuring, resulting in a \$16 million reduction in the original accrual. Severance-related charges were less than originally anticipated due to higher levels of attrition and redeployment within the Bank.

On October 31, 2007, we recorded an additional restructuring charge of \$40 million in the Consolidated Statement of Income. The additional charge relates to the elimination of approximately 400 positions across all support functions and business groups and is all severance-related.

(Canadian \$ in millions)	Severance-related charges	Premises-related charges	Other	Total
Opening balance	\$ 117	\$ 11	\$ 7	\$ 135
Paid in the year	(46)	(10)	(7)	(63)
Reversal in the year	(15)	(1)	—	(16)
Additional charge in the year	40	—	—	40
Balance as at October 31, 2007	\$ 96	\$ —	\$ —	\$ 96

Note 18: Subordinated Debt

Subordinated debt represents our direct unsecured obligations, in the form of notes and debentures, to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require approval from the Superintendent of Financial Institutions Canada before we can redeem any part of our subordinated debt.

During the year ended October 31, 2007, we issued Series D Medium-Term Notes, Tranche 2, totalling \$1.2 billion. We redeemed our \$150 million Series 22 Debentures. Our US\$300 million 7.80% Notes matured. During the year ended October 31, 2006, we issued Series D Medium-Term Notes, Tranche 1, totalling \$700 million. We redeemed our \$300 million Series 21 Debentures and our \$125 million Series 19 Debentures. There were no gains or losses on any of our redemptions.

During the year ended October 31, 2007, we issued \$800 million of innovative subordinated debentures, BMO Trust Subordinated Notes (BMO TSNs – Series A), through BMO Subordinated Notes Trust ("SN Trust"). SN Trust is a variable interest entity which we are not

required to consolidate (see Note 8); therefore, the BMO TSNs – Series A issued by SN Trust are not reported on our Consolidated Balance Sheet. SN Trust used the proceeds of the issuance to purchase a senior deposit note from us which is reported as a business and government deposit liability on our Consolidated Balance Sheet. All of the BMO TSNs – Series A will be exchanged automatically, without the consent of the holders, into our Series E Subordinated Notes upon the occurrence of specific events, such as a wind-up of Bank of Montreal, a regulatory requirement to increase capital, violations of regulatory capital requirements, or changes to tax legislation.

We have guaranteed the payments of principal, interest and redemption price, if any, and any other amounts on the BMO TSNs – Series A when they become due and payable. This guarantee is subordinate to our deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are designated as ranking either equally with or subordinate to the subordinated indebtedness.

The senior deposit note bears interest at an annual rate of 5.90% and will mature on September 26, 2022.

The term to maturity and repayments of our subordinated debt required over the next five years and thereafter are as follows:

(Canadian \$ in millions, except as noted)	Face value	Maturity date	Interest rate (%)	Redeemable at our option beginning in	Over 5 years					2007 Total	2006 Total
					1 year	2 years	3 years	4 years	5 years		
Debentures Series 12	\$ 140	December 2008	10.85	December 1998	\$ —	\$ 140	\$ —	\$ —	\$ —	\$ 140	\$ 140
Debentures Series 16	\$ 100	February 2017	10.00	February 2012	—	—	—	—	—	100	100
Debentures Series 20	\$ 150	December 2025 to 2040	8.25	not redeemable	—	—	—	—	—	150	150
Debentures Series 22	\$ 150	July 2012	7.92	redeemed	—	—	—	—	—	—	150
7.80% Notes	US\$ 300	April 2007	7.80	matured (2)	—	—	—	—	—	—	336
Series A Medium-Term Notes											
2nd Tranche	\$ 150	February 2013	5.75	February 2008	—	—	—	—	—	150	150
Series C Medium-Term Notes											
1st Tranche	\$ 500	January 2015	4.00	January 2010 (3)	—	—	—	—	—	500	500
2nd Tranche	\$ 500	April 2020	4.87	April 2015 (4)	—	—	—	—	—	500	500
Series D Medium-Term Notes											
1st Tranche	\$ 700	April 2021	5.10	April 2016 (5)	—	—	—	—	—	700	700
2nd Tranche	\$ 1,200	June 2017	5.20	June 2012 (6)	—	—	—	—	—	1,200	1,200
					\$ —	\$ 140	\$ —	\$ —	\$ —	\$ 3,300	\$ 3,440 (7) \$2,726
BMO Trust Subordinated Notes											
Series A	\$ 800	September 2022	5.75	September 2017 (1)	—	—	—	—	—	800	800
Total					\$ —	\$ 140	\$ —	\$ —	\$ —	\$ 4,100	\$ 4,240 \$2,726

(1) Redeemable at the greater of par and the Canada Yield Price (the yield on an issue of non-callable Government of Canada bonds) prior to September 26, 2017, and redeemable at par commencing September 26, 2017.

(2) Redeemable at our option only if certain tax events occur.

(3) Redeemable at the greater of par and the Canada Yield Price prior to January 21, 2010, and redeemable at par commencing January 21, 2010.

(4) Redeemable at the greater of par and the Canada Yield Price prior to April 22, 2015, and redeemable at par commencing April 22, 2015.

(5) Redeemable at the greater of par and the Canada Yield Price prior to April 21, 2016, and redeemable at par commencing April 21, 2016.

(6) Redeemable at the greater of par and the Canada Yield Price prior to June 21, 2012 and redeemable at par commencing June 21, 2012.

(7) Certain subordinated debt recorded amounts include quasi fair value adjustments of \$6 million as they are included as part of fair value hedges (see Note 9).

Note 19: Capital Trust Securities

We issue BMO Capital Trust Securities ("BOaTS") through our consolidated subsidiary BMO Capital Trust (the "Trust"). The proceeds of the BOaTS are used to purchase mortgages. Upon consolidation, the BOaTS are reported in our Consolidated Balance Sheet either as non-controlling interest in subsidiaries or as capital trust securities, depending on the terms of the BOaTS.

Holders of the BOaTS are entitled to receive semi-annual non-cumulative fixed cash distributions as long as we declare dividends on our preferred shares, or if no such shares are outstanding, on our common shares in accordance with our ordinary dividend practice. The terms of the BOaTS are as follows:

(Canadian \$ in millions, except Distribution)	Distribution dates	Distribution per BOaTS	Redemption date	Conversion date	Principal amount	
			At the option of the Trust	At the option of the holder	2007	2006
Capital Trust Securities						
Series A	June 30, December 31	\$ 34.52	December 31, 2005	December 31, 2010	\$ 350	\$ 350
Series B	June 30, December 31	33.24	June 30, 2006	June 30, 2011	400	400
Series C	June 30, December 31	33.43	December 31, 2006	June 30, 2012	400	400
					1,150	1,150
Non-Controlling Interest						
Series D	June 30, December 31	\$ 27.37(1)	December 31, 2009		600	600
Series E	June 30, December 31	23.17(2)	December 31, 2010		450	450
					1,050	1,050
Total Capital Trust Securities					\$ 2,200	\$ 2,200

(1) After December 31, 2014, the distribution will be at the Bankers' Acceptance Rate plus 1.5%.

(2) After December 31, 2015, the distribution will be at the Bankers' Acceptance Rate plus 1.5%.

Redemption by the Trust

On or after the redemption dates indicated above, and subject to the prior approval of the Superintendent of Financial Institutions Canada, the Trust may redeem the BOaTS in whole without the consent of the holders.

Conversion by the Holders

On or after the conversion dates indicated above, the BOaTS Series A, B and C may be exchanged for our Class B Preferred shares, Series 7, 8 and 9, respectively, at the option of the holders.

Automatic Exchange

The BOaTS Series A, B, C, D and E will each be automatically exchanged for 40 of our Class B Preferred shares, Series 7, 8, 9, 11 and 12, respectively, without the consent of the holders on the occurrence of specific events such as a wind-up of Bank of Montreal, a regulatory requirement to increase capital or violations of regulatory capital requirements.

Change in Accounting Policy

On November 1, 2004, we adopted the CICA's new accounting requirements on the classification of financial instruments as liabilities or equity. The new rules require that our capital trust securities, which are ultimately convertible into a variable number of our common shares at the holders' option, be classified as liabilities. We reclassified \$1,150 million of our capital trust securities, Series A, B and C, previously recorded in other liabilities as non-controlling interest in subsidiaries, to capital trust securities. The distributions made on those capital trust securities are now recorded as interest expense.

See Note 21 for the impact of this change in accounting policy on our consolidated financial statements.

Note 20: Interest Rate Risk

We earn interest on interest bearing assets and we pay interest on interest bearing liabilities. We also have off-balance sheet financial instruments whose values are sensitive to changes in interest rates. To the extent that we have assets, liabilities and financial instruments maturing or repricing at different points in time, we are exposed to interest rate risk.

Notes

Interest Rate Gap Position

The determination of the interest rate sensitivity or gap position by necessity encompasses numerous assumptions. It is based on the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk.

The gap position presented is as at October 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on customer behaviours and the application of our asset and liability management policies.

The assumptions for the year ended October 31, 2007 were as follows:

Assets

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based upon the scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Trading and underwriting (mark-to-market) assets and interest bearing assets on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Fixed rate and non-interest bearing assets with no defined maturity are reported based upon expected account balance behaviour.

Liabilities

Fixed rate liabilities, such as investment certificates, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest bearing deposits on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon expected account balance behaviour.

Capital

Common shareholders' equity is reported as non-interest sensitive.

Yields

Yields are based upon the effective interest rates for the assets or liabilities on October 31, 2007.

Interest Rate Gap Position

(Canadian \$ in millions)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Total
Canadian Dollar											
Assets											
Cash resources	\$ (6,131)	\$ —	\$ —	\$ (6,131)	4.08	\$ 289	—	\$ 109	—	\$ (1,029)	\$ (6,871)
Securities	45,687	578	2,107	48,372	3.71	8,595	4.81	—	5.88	130	57,206
Securities borrowed or purchased under resale agreements	21,590	211	502	22,303	4.10	—	—	—	—	—	22,303
Loans	61,617	3,614	7,109	72,340	6.80	31,880	5.76	3,233	5.55	12,722	120,175
Other assets	62,167	(1,022)	527	61,672	n/a	4,214	n/a	—	n/a	1,052	66,938
Total assets	184,930	3,381	10,245	198,556		44,978		3,342		12,875	259,751
Liabilities and Shareholders' Equity											
Deposits	70,368	3,414	7,575	81,357	6.13	40,688	2.09	3,316	2.09	—	125,361
Securities sold but not yet purchased	21,044	—	—	21,044	3.46	—	—	—	—	—	21,044
Securities lent or sold under repurchase agreements	15,467	111	—	15,578	3.07	—	—	—	—	—	15,578
Other liabilities	61,588	103	265	61,956	1.71	2,158	n/a	1,050	n/a	12,744	77,908
Subordinated debt, Capital trust securities and Preferred share liability	256	150	—	406	4.61	3,090	5.98	1,350	5.36	—	4,846
Shareholders' equity	(18)	—	—	(18)	n/a	349	n/a	450	n/a	14,233	15,014
Total liabilities and shareholders' equity	168,705	3,778	7,840	180,323		46,285		6,166		26,977	259,751
On-balance sheet gap position	16,225	(397)	2,405	18,233		(1,307)		(2,824)		(14,102)	—
Off-balance sheet notional amounts of derivatives	(16,963)	902	2,553	(13,508)		10,633		2,875		—	—
Total Canadian dollar interest rate gap position											
2007	\$ (738)	\$ 505	\$ 4,958	\$ 4,725		\$ 9,326		\$ 51		\$ (14,102)	\$ —
2006	908	(1,415)	5,115	4,608		7,955		1,903		(14,466)	—
U.S. Dollar and Other Currencies											
Assets											
Cash resources	\$ 26,443	\$ 2,287	\$ (444)	\$ 28,286	3.84	\$ 966	2.24	\$ —	—	\$ 509	\$ 29,761
Securities	31,391	1,284	1,833	34,508	3.56	4,900	3.97	1,579	5.30	84	41,071
Securities borrowed or purchased under resale agreements	14,007	—	783	14,790	3.07	—	—	—	—	—	14,790
Loans	28,185	1,837	2,948	32,970	6.06	9,014	6.36	1,117	5.29	819	43,920
Other assets	(27,808)	828	1,111	(25,869)	n/a	3,091	n/a	—	n/a	9	(22,769)
Total assets	72,218	6,236	6,231	84,685		17,971		2,696		1,421	106,773
Liabilities and Shareholders' Equity											
Deposits	83,800	8,282	6,056	98,138	4.25	7,047	1.23	1,481	4.59	23	106,689
Securities sold but not yet purchased	3,995	—	—	3,995	—	—	—	—	—	—	3,995
Securities lent or sold under repurchase agreements	15,639	46	—	15,685	6.03	—	—	—	—	—	15,685
Other liabilities	(22,383)	82	254	(22,047)	n/a	1,346	n/a	—	n/a	821	(19,880)
Subordinated debt, Capital trust securities and Preferred share liability	—	—	—	—	—	—	—	—	—	—	—
Shareholders' equity	—	—	—	—	n/a	284	n/a	—	n/a	—	284
Total liabilities and shareholders' equity	81,051	8,410	6,310	95,771		8,677		1,481		844	106,773
On-balance sheet gap position	(8,833)	(2,174)	(79)	(11,086)		9,294		1,215		577	—
Off-balance sheet notional amounts of derivatives	6,231	—	—	6,231		(5,885)		(346)		—	—
Total U.S. dollar and other currencies interest rate gap position											
2007	\$ (2,602)	\$ (2,174)	\$ (79)	\$ (4,855)		\$ 3,409		\$ 869		\$ 577	\$ —
2006	(14,863)	2,543	4,882	(7,438)		3,159		3,829		450	—

Certain comparative figures have been reclassified to conform with the current year's presentation.

n/a – not applicable

Note 21: Share Capital

	Outstanding (Canadian \$ in millions, except as noted)			2007			2006			2005		
	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares – Classified as Liabilities												
Class B – Series 4 (1)	–	\$ –	\$ 0.91	8,000,000	\$ 200	\$ 1.20	8,000,000	\$ 200	\$ 1.20	–	–	–
Class B – Series 6	10,000,000	250	1.19	10,000,000	250	1.19	10,000,000	250	1.19	–	–	–
		250			450				450			
Preferred Shares – Classified as Equity												
Class B – Series 5	8,000,000	\$ 200	\$ 1.33	8,000,000	\$ 200	\$ 1.33	8,000,000	\$ 200	\$ 1.33	–	–	–
Class B – Series 10	12,000,000	396	US\$ 1.49	12,000,000	396	US\$ 1.49	12,000,000	396	US\$ 1.49	–	–	–
Class B – Series 13	14,000,000	350	0.96	–	–	–	–	–	–	–	–	–
Class B – Series 14	10,000,000	250	–	–	–	–	–	–	–	–	–	–
		1,196			596				596			
Common Shares	498,562,702	4,411	\$ 2.71	500,726,079	4,231	\$ 2.26	500,219,068	4,022	\$ 1.85	–	–	–
Share Capital		\$ 5,607			\$ 4,827				\$ 4,618			

(1) \$200 million redeemed in 2007.

Preferred Shares

We are authorized by our shareholders to issue an unlimited number of Class A Preferred shares and Class B Preferred shares without par value, in series, for unlimited consideration. Class B Preferred shares may be issued in a foreign currency.

During the year ended October 31, 2007, we issued the following preferred shares:

- 14,000,000 4.5% Non-Cumulative Perpetual Class B Preferred shares, Series 13, at a price of \$25.00 per share, representing an aggregate issue price of \$350 million.
- 10,000,000 5.25% Non-Cumulative Perpetual Class B Preferred shares, Series 14, at a price of \$25.00 per share, representing an aggregate issue price of \$250 million.

During the year ended October 31, 2007, we redeemed all of our 8,000,000 Non-Cumulative Class B Preferred shares, Series 4, at a price of \$25.00 per share plus any declared and unpaid dividends to the date of redemption. This represents an aggregate redemption price of approximately \$200 million.

Preferred Share Rights and Privileges

Class B – Series 4 shares were convertible at the shareholder's option; however, they were redeemed during the year. The shares carry a non-cumulative quarterly dividend of \$0.30 per share.

Class B – Series 5 shares are redeemable at our option starting February 25, 2013 for \$25.00 cash per share, and are not convertible. The shares carry a non-cumulative quarterly dividend of \$0.33125 per share.

Class B – Series 6 shares are redeemable at our option starting November 25, 2005 for \$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares. They are convertible at the shareholder's option starting November 25, 2008 into our common shares; however, we have the right to pay \$25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of \$0.296875 per share.

Class B – Series 10 shares are redeemable at our option starting February 25, 2012 for US\$25.00 cash per share, and are convertible at our option starting February 25, 2012 into our common shares. The shares carry a non-cumulative quarterly dividend of US\$0.371875 per share.

Class B – Series 13 shares are redeemable at our option starting February 25, 2012 for \$25.00 cash per share, plus a premium if we redeem the shares before February 25, 2016. The shares carry a non-cumulative quarterly dividend of \$0.28125 per share.

Class B – Series 14 shares are redeemable at our option starting November 25, 2012 for \$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2016. The shares carry a non-cumulative quarterly dividend of \$0.328125 per share.

Common Shares

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, for unlimited consideration. Our common shares are not redeemable or convertible. Dividends are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

Normal Course Issuer Bid

On September 6, 2007, we commenced a normal course issuer bid, effective for one year. Under this bid, we may repurchase up to 25,000,000 common shares, approximately 5% of our outstanding common shares.

We participated in a normal course issuer bid during the period from September 6, 2006 to September 5, 2007, under which we were able to repurchase up to 15,000,000 common shares, approximately 3% of our then outstanding common shares.

During the year ended October 31, 2007, we repurchased 7,621,600 shares at an average cost of \$68.80 per share, totalling \$524 million. During the year ended October 31, 2006, we repurchased 5,919,400 shares at an average cost of \$63.58 per share, totalling \$376 million. During the year ended October 31, 2005, we repurchased 6,957,800 shares at an average cost of \$56.04 per share, totalling \$390 million.

Issuances Exchangeable into Common Shares

One of our subsidiaries, Bank of Montreal Securities Canada Limited ("BMSCL"), has issued various classes of non-voting shares that can be exchanged at the option of the holder for our common shares, based on a formula. If all of these BMSCL shares had been converted into our common shares, up to 270,657, 327,863 and 361,397 of our common shares would have been needed to complete the exchange as at October 31, 2007, 2006 and 2005, respectively.

Share Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we would be, as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the *Bank Act*. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

In addition, we have agreed that if BMO Capital Trust (the "Trust"), one of our subsidiaries, fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares for a period of time following the Trust's failure to pay the required distribution (as defined in the capital trust securities' prospectuses) unless the Trust first pays such distribution to the holders of its capital trust securities (see Note 19).

Shareholder Dividend Reinvestment and Share Purchase Plan

We offer a dividend reinvestment and share purchase plan for our shareholders. Participation in the plan is optional. Under the terms of the plan, cash dividends on common shares are reinvested to purchase additional common shares. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. We may issue these common shares at an average of the closing prices of our common shares on the Toronto Stock Exchange based on the five trading days prior to the last business day of the month or we may purchase them on the open market at market price. During the year ended October 31, 2007, we issued a total of 1,626,374 common shares (1,378,328 in 2006) under the plan.

Potential Share Issuances

As at October 31, 2007, we had reserved 1,641,923 common shares for potential issuance in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan and 4,990,777 common shares in respect of the exchange of certain shares of BMSCL. We also have reserved 21,380,724 common shares for the potential exercise of stock options, as further described in Note 22.

Change in Accounting Policy

On November 1, 2004, we adopted the CICA's new accounting requirements on the classification of financial instruments as liabilities or equity. The new rules require that our preferred shares and capital trust securities, which are ultimately convertible into a variable number of our common shares at the holders' option, be classified as liabilities. We reclassified \$850 million of our Class B Preferred shares, Series 3, 4 and 6, from share capital to preferred share liability. We also reclassified \$1,150 million of our capital trust securities, Series A, B and C, previously recorded in other liabilities as non-controlling interest in subsidiaries, to capital trust securities. The dividends declared on those preferred shares, as well as the distributions made on those capital trust securities, are now recorded as interest expense. This change did not impact earnings per share or net income available to common shareholders since preferred share dividends are deducted from net income in determining those measures.

The impact of this change in accounting policy on our Consolidated Statement of Income for the years ended October 31, 2007, 2006 and 2005 was as follows:

(Canadian \$ in millions)	2007	2006	2005
Increase (decrease) in net income			
Interest Expense – Preferred shares and capital trust securities	\$ (99)	\$ (99)	\$ (97)
Non-controlling interest in subsidiaries	51	42	42
Income taxes	28	37	37
Net Income	(20)	(20)	(18)
Preferred share dividends	20	20	18
Net income available to common shareholders	\$ –	\$ –	\$ –

Note 22: Employee Compensation – Stock-Based Compensation

We determine the fair value of stock options on their grant date and record this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, we record the amount of proceeds, together with the amount recorded in contributed surplus, in share capital.

Stock Option Plan

We maintain a Stock Option Plan for designated officers, employees and directors. Options are granted at an exercise price equal to the closing price of our common shares on the day prior to the grant date. Options granted under the plan from 1995 to 1999 vest five fiscal years from November 1 of the year in which the options were granted to the officer or employee, if we have met certain performance targets. Options granted since 1999 vest 25% per year over a four-year period starting from their grant date. A portion of the options granted since 1999 can only be exercised once certain performance targets are met. All options expire 10 years from their grant date.

The following table summarizes information about our Stock Option Plan:

(Canadian \$, except as noted)	2007		2006		2005	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Outstanding at beginning of year	23,254,639	\$ 38.55	26,919,349	\$ 35.86	30,442,060	\$ 33.87
Granted	1,229,500	68.96	1,390,700	63.04	1,471,764	56.60
Exercised	3,774,644	31.86	5,014,557	30.87	4,736,826	29.30
Forfeited/cancelled	43,882	54.42	37,053	46.77	257,649	36.77
Expired	8,900	19.93	3,800	15.50	—	n/a
Outstanding at end of year	20,656,713	41.55	23,254,639	38.55	26,919,349	35.86
Exercisable at end of year	15,585,532	36.01	17,947,453	34.35	20,016,144	32.68
Available for grant	3,863,301		2,047,729		3,397,576	
Outstanding stock options as a percentage of outstanding shares	4.14%		4.64%		5.38%	

n/a – not applicable

Employee compensation expense related to this plan for the years ended October 31, 2007, 2006 and 2005 was \$11 million, \$14 million and \$13 million before tax, respectively (\$10 million, \$13 million and \$12 million after tax, respectively).

The intrinsic value of a stock option grant is the difference between the current market price for our common shares and the strike price

of the option. The aggregate intrinsic value for stock options outstanding at October 31, 2007, 2006 and 2005 was \$443 million, \$719 million and \$591 million, respectively. The aggregate intrinsic value for stock options exercisable at October 31, 2007, 2006 and 2005 was \$421 million, \$629 million and \$503 million, respectively.

Options outstanding and options exercisable as at October 31, 2007 and 2006 by range of exercise price were as follows:

(Canadian \$, except as noted)	2007				2006					
Range of exercise prices	Options outstanding		Options exercisable		Options outstanding		Options exercisable			
	Number of stock options	Weighted-average remaining contractual life (years)	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average remaining contractual life (years)	Number of stock options	Weighted-average exercise price		
\$15.50 to \$20.00	—	—	\$ —	\$ —	140,387	0.1	\$ 19.93	140,387	\$ 19.93	
\$20.01 to \$30.00	2,492,855	2.0	25.60	2,492,855	25.60	3,441,275	3.0	25.60	3,441,275	25.60
\$30.01 to \$40.00	10,604,596	3.1	35.69	10,184,016	35.57	13,135,225	3.9	35.36	12,313,275	35.24
\$40.01 to \$68.32	6,342,762	6.3	52.37	2,908,661	46.48	6,537,752	7.2	52.16	2,052,516	44.67
\$68.33 and over	1,216,500	9.0	68.97	—	—	—	—	—	—	

The following table summarizes nonvested stock option activity for the years ended October 31, 2007 and 2006:

(Canadian \$, except as noted)	2007			2006		
	Number of stock options	Weighted-average grant date fair value	Number of stock options	Weighted-average grant date fair value	Number of stock options	
Nonvested at beginning of year	5,307,186	\$ 8.89	6,903,205	\$ 7.82		
Granted	1,229,500	7.56	1,390,700	10.17		
Vested	1,442,754	8.25	2,953,266	7.14		
Forfeited/cancelled	22,751	10.16	33,453	9.19		
Nonvested at end of year	5,071,181	\$ 8.74	5,307,186	\$ 8.89		

The following table summarizes further information about our Stock Option Plan:

(Canadian \$ in millions, except as noted)	2007	2006	2005
Unrecognized compensation cost for nonvested stock option awards	\$ 10	\$ 12	\$ 13
Weighted-average period over which it is recognized (in years)	2.6	3.0	2.9
Total intrinsic value of stock options exercised	\$ 138	\$ 170	\$ 131
Cash proceeds from stock options exercised	\$ 120	\$ 155	\$ 139
Actual tax benefits realized on stock options exercised	\$ 4	\$ 14	\$ 7

Change in Accounting Policy

During the year ended October 31, 2006, we adopted the CICA's new accounting requirements for stock-based compensation. The new rules require that stock-based compensation granted to employees eligible to retire be expensed at the time of grant. Previously, we amortized the cost over the vesting period.

Notes

We have restated prior years' consolidated financial statements to reflect this change. The impact of this change in accounting policy on our consolidated financial statements for the current and prior years as at October 31 is as follows:

(Canadian \$ in millions)	2007	2006	2005
Increase (decrease) in net income			
Consolidated Statement of Income			
Employee compensation	\$ (6)	\$ (2)	\$ (5)
Income taxes	2	–	1
Net Income	\$ (4)	\$ (2)	\$ (4)
Increase (decrease)			
Consolidated Balance Sheet			
Other assets	\$ (30)	\$ (24)	\$ (25)
Other liabilities	2	1	(1)
Contributed surplus	17	16	15

We determine the fair value of options granted using a trinomial option pricing model. Expected volatility is based on the implied volatility from traded options on our share price and the historical volatility of our share price. The weighted-average fair value of options granted during the years ended October 31, 2007, 2006 and 2005 was \$7.56, \$10.17 and \$10.34, respectively. The following weighted-average assumptions were used to determine the fair value of options on the date of grant:

	2007	2006	2005
Expected dividend yield	4.2%	3.4%	3.4%
Expected share price volatility	15.6%	20.2%	22.8%
Risk-free rate of return	4.0%	4.0%	4.2%
Expected period until exercise (in years)	7.4	7.2	7.1

Changes to the input assumptions can result in materially different fair value estimates.

Other Stock-Based Compensation Plans

Share Purchase Plan

We offer our employees the option of contributing a portion of their gross salary toward the purchase of our common shares. We match 50% of employee contributions up to 6% of their individual gross salaries. The shares in the employee share purchase plan are purchased on the open market and are considered outstanding for purposes of computing earnings per share. The dividends earned on our common shares held by the plan are used to purchase additional common shares on the open market.

We account for our contribution as employee compensation expense when it is contributed to the plan.

Employee compensation expense related to this plan for the years ended October 31, 2007, 2006 and 2005 was \$36 million, \$35 million and \$33 million, respectively. There were 13,102,696, 12,809,736 and 12,184,377 common shares held in this plan for the years ended October 31, 2007, 2006 and 2005, respectively.

Mid-Term Incentive Plans

We offer mid-term incentive plans for executives and certain senior employees. Depending on the plan, these pay either a single cash payment at the end of the three-year period of the plan, or three annual cash payments in each of the three years of the plan. The amount of the payment is adjusted to reflect dividends and changes in the market value of our common shares. For the majority of executive and some senior employee grants, a portion of the incentive payment also varies based on performance targets driven by annualized total shareholder return compared with that of our competitors.

Mid-term incentive plan units granted during the years ended October 31, 2007, 2006 and 2005 totalled 3,210,864, 3,387,493 and 3,105,178, respectively. We entered into agreements with third parties to assume most of our obligations related to these plans in exchange

for cash payments of \$220 million, \$202 million and \$187 million in the years ended October 31, 2007, 2006 and 2005, respectively. Amounts paid under these agreements were recorded in our Consolidated Balance Sheet in other assets and are recorded as employee compensation expense evenly over the period prior to payment to employees. Amounts related to units granted to employees who are eligible to retire are expensed at the time of grant. We no longer have any liability for the obligations transferred to third parties because any future payments required will be the responsibility of the third parties. The amount deferred and recorded in other assets in our Consolidated Balance Sheet totalled \$104 million and \$96 million as at October 31, 2007 and 2006, respectively. The deferred amount as at October 31, 2007 is expected to be recognized over a weighted-average period of 1.8 years (1.7 years in 2006).

For the remaining obligations related to plans for which we have not entered into agreements with third parties, the amount of compensation expense is amortized over the period prior to payment to employees and adjusted to reflect the current market value of our common shares. The liability related to these plans as at October 31, 2007 and 2006 was \$19 million and \$nil, respectively.

Employee compensation expense related to these plans for the years ended October 31, 2007, 2006 and 2005 was \$212 million, \$190 million and \$174 million before tax, respectively (\$138 million, \$122 million and \$112 million after tax, respectively).

A total of 8,298,718, 8,272,824 and 8,933,847 share units were outstanding for the years ended October 31, 2007, 2006 and 2005, respectively.

Deferred Incentive Plans

We offer deferred incentive plans for certain senior executives and key employees in our BMO Capital Markets and Private Client Groups and members of our Board of Directors. Under these plans, fees, annual incentive payments and/or commissions can be deferred as stock units of our common shares. The amount of fees, deferred incentive payments and/or commissions is adjusted to reflect dividends and changes in the market value of our common shares.

Depending on the plan, deferred incentive payments can be paid upon retirement/resignation, over the three-year period of the plan or at the end of the three-year period of the plan. The deferred incentive payments can be made in cash, shares or a combination of both.

Employee compensation expense for these plans is recorded in the year the incentive payment and/or commission is earned. Changes in the amount of the incentive payments as a result of dividends and share price movements are recorded as employee compensation expense in the period of the change.

Deferred incentive plan units granted during the years ended October 31, 2007, 2006 and 2005 totalled 442,583, 471,662 and 398,605, respectively. We have entered into derivative instruments to hedge our exposure to these plans. Changes in the fair value of these derivatives are recorded as employee compensation expense in the period in which they arise.

Liabilities related to these plans are recorded in other liabilities in our Consolidated Balance Sheet and totalled \$169 million and \$171 million as at October 31, 2007 and 2006, respectively.

Employee compensation expense related to these plans for the years ended October 31, 2007, 2006 and 2005 was \$13 million, \$33 million and \$6 million before tax, respectively (\$8 million, \$21 million and \$4 million after tax, respectively). Hedging gains of \$6 million, \$25 million and \$2 million before tax, respectively, were also recognized, resulting in net employee compensation expense of \$7 million, \$8 million and \$4 million before tax, respectively (\$5 million, \$5 million and \$3 million after tax, respectively).

A total of 2,686,903, 2,542,696 and 2,099,577 deferred stock units were outstanding for the years ended October 31, 2007, 2006 and 2005, respectively.

Note 23: Employee Compensation – Pension and Other Employee Future Benefits

Pension and Other Employee Future Benefit Plans

We have a number of arrangements in Canada, the United States and the United Kingdom that provide pension and other employee future benefits to our retired and current employees.

Pension arrangements include defined benefit statutory pension plans, as well as supplemental arrangements that provide pension benefits in excess of statutory limits. Generally, under these plans we provide retirement benefits based on an employee's years of service and average annual earnings over a period of time prior to retirement. We are responsible for ensuring that the statutory pension plans have sufficient assets to pay the pension benefits upon retirement of employees. Voluntary contributions can be made by employees but are not required.

We also provide defined contribution pension plans to employees in some of our subsidiaries. Under these plans, we are responsible for contributing a predetermined amount to a participant's retirement savings, based on a percentage of that employee's salary. We recognize the cost of our defined contribution pension plans in employee compensation expense as the employees work for us.

We also provide other employee future benefits, including health and dental care benefits and life insurance for current and retired employees.

Pension and Other Employee Future Benefit Liabilities

We have two types of benefit liabilities: our defined benefit pension liabilities and our other employee future benefit liabilities. These benefit liabilities represent the amount of pension and other employee future benefits that our employees and retirees have earned as at year end.

Our actuaries perform valuations of our benefit liabilities for pension and other employee future benefits as at October 31 of each year for our Canadian plans (September 30 for our U.S. plans), using the projected benefit method prorated on service, based on management's assumptions about discount rates, salary growth, retirement age, mortality and health care cost trend rates. The discount rate is determined by management with reference to market conditions at year end. Other assumptions are determined with reference to long-term expectations.

Components of the change in our benefit liabilities year over year and our pension and other employee future benefit expense are as follows:

Benefits earned by employees represent benefits earned in the current year. They are determined with reference to the current workforce and the amount of benefits to which they will be entitled upon retirement, based on the provisions of our benefit plans.

Interest cost on benefit liabilities represents the increase in the liabilities that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year our actuaries recalculate the benefit liabilities and compare them to those estimated as at the prior year end. Any differences that result from changes in assumptions or from plan experience being different

The benefit liability and the fair value of plan assets in respect of plans that are not fully funded are as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Accrued benefit liability	\$ 832	\$ 955	\$ 959	\$ 908	\$ 952	\$ 852
Fair value of plan assets	706	729	693	68	68	66
Unfunded benefit liability	\$ 126	\$ 226	\$ 266	\$ 840	\$ 884	\$ 786

from management's expectations at the previous year end are considered actuarial gains or losses. Secondly, actuarial gains and losses arise when there are differences between expected and actual returns on plan assets.

At the beginning of each year, we determine whether the unrecognized actuarial gain or loss is more than 10% of the greater of our plan asset or benefit liability balances. Any unrecognized actuarial gain or loss in excess of this 10% threshold is recognized in expense over the remaining service period of active employees. Amounts below the 10% threshold are not recognized in income.

Plan amendments are changes in our benefit liabilities as a result of changes to provisions of the plans. These amounts are recognized in expense over the remaining service period of active employees.

Expected return on assets represents management's best estimate of the long-term rate of return on plan assets applied to the fair value of plan assets. We establish our estimate of the expected rate of return on plan assets based on the plan's target asset allocation and estimated rates of return for each asset class. Estimated rates of return are based on expected returns from fixed income securities, which take into consideration bond yields. An equity risk premium is then applied to estimate equity returns. Returns from other asset classes are set to reflect the relative risks of these classes as compared to fixed income and equity assets. Differences between expected and actual returns on assets are included in our actuarial gain or loss balance, as described above.

Settlements occur when benefit liabilities for plan participants are settled, usually through lump sum cash payments, and as a result we no longer have a liability to provide them with benefit payments in the future.

Funding of Pension and Other Employee Future Benefit Plans

Our statutory pension plans in Canada and the United States are funded by us and the assets in these plans are used to pay retirees benefits.

Our supplementary pension plans in Canada are partially funded, while in the United States the plan is unfunded. Our other employee future benefit plans in the United States and Canada are partially funded. Pension and benefit payments related to these plans are either paid through the respective plan, or paid directly by us.

We measure the fair value of plan assets as at October 31 for our Canadian plans (September 30 for our U.S. plans). In addition to actuarial valuations for accounting purposes, we are required to prepare valuations for determining our pension contributions (our "funding valuation"). The most recent funding valuation for our main Canadian plan was performed as at October 31, 2007. We are required to file funding valuations for that plan with the Office of the Superintendent of Financial Institutions Canada at least every three years. An annual funding valuation is required for our U.S. statutory plan. The most recent valuation was performed as at January 1, 2007.

Asset Allocations

The investment policy for the main Canadian pension plan assets is to have a diversified mix of quality investments that is expected to provide a superior real rate of return over the long term, while

limiting performance volatility. Plan assets are rebalanced within ranges around target allocations. Allocations as at the end of each year and the target allocations for October 31 are as follows:

	Funded pension benefit plans (1)				Funded other employee future benefit plans			
	Target 2007	Actual 2007	Actual 2006	Actual 2005	Target 2007	Actual 2007	Actual 2006	Actual 2005
Equities	53%	45%	43%	50%	65%	73%	65%	67%
Fixed income investments	35%	38%	41%	38%	35%	27%	33%	33%
Other	12%	17%	16%	12%	—	—	2%	—

(1) Excludes the Canadian supplementary plan, whose assets are fully invested in fixed income investments.

Pension and Other Employee Future Benefit Expenses

Pension and other employee future benefit expenses are determined as follows:

(Canadian \$ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Annual Benefits Expense						
Benefits earned by employees	\$ 149	\$ 137	\$ 127	\$ 22	\$ 18	\$ 17
Interest cost on accrued benefit liability	217	208	205	49	46	46
Actuarial loss recognized in expense	59	82	69	18	14	10
Amortization of plan amendment costs	11	6	4	(7)	(7)	(7)
Expected return on plan assets	(277)	(253)	(230)	(5)	(5)	(5)
Annual benefits expense	159	180	175	77	66	61
Canada and Quebec pension plan expense	52	49	45	—	—	—
Defined contribution expense	13	10	11	—	—	—
Total annual pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	\$ 224	\$ 239	\$ 231	\$ 77	\$ 66	\$ 61
The impact on annual benefits expense if we had recognized all costs and expenses as they arose						
Total annual pension and other employee future benefit expenses recognized in the Consolidated Statement of Income	\$ 224	\$ 239	\$ 231	\$ 77	\$ 66	\$ 61
(Excess) of actual returns over expected returns on plan assets	(157)	(231)	(141)	(6)	(1)	(5)
(Excess) shortfall of actuarial (gains) losses amortized over actuarial (gains) losses arising	(328)	37	320	(78)	44	59
(Excess) shortfall of plan amendment costs amortized over plan amendment costs arising	44	(6)	11	(1)	7	7
Total pro forma annual pension and other employee future benefit expenses if we had recognized all costs and benefits during the year	\$ (217)	\$ 39	\$ 421	\$ (8)	\$ 116	\$ 122
Weighted-average assumptions used to determine benefit expenses						
Estimated average service period of active employees (in years)	11	10	10	12	12	12
Discount rate at beginning of year	5.1%	5.3%	6.0%	5.3%	5.5%	6.2%
Expected long-term rate of return on plan assets	6.6%	6.6%	6.7%	8.0%	8.0%	8.0%
Rate of compensation increase	3.8%	3.8%	3.9%	3.8%	3.8%	3.9%
Assumed overall health care cost trend rate	n/a	n/a	n/a	7.5%(1)	7.7%(1)	8.0%(1)

(1) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

Changes in the estimated financial positions of our pension benefit plans and other employee future benefit plans are as follows:

(Canadian \$ in millions, except as noted)	Pension benefit plans			Other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Benefit liability						
Benefit liability at beginning of year	\$ 4,248	\$ 4,013	\$ 3,479	\$ 952	\$ 852	\$ 741
Benefits earned by employees	149	137	127	22	18	17
Interest cost on benefit liability	217	208	205	49	46	46
Benefits paid to pensioners and employees	(218)	(202)	(185)	(32)	(18)	(19)
Voluntary employee contributions	6	6	6	—	—	—
(Gain) loss on the benefit liability arising from changes in assumptions	(269)	121	389	(60)	58	69
Plan amendments (b)	55	—	15	(8)	—	—
Other, primarily foreign exchange	(106)	(35)	(23)	(15)	(4)	(2)
Benefit liability at end of year	\$ 4,082	\$ 4,248	\$ 4,013	\$ 908	\$ 952	\$ 852
Weighted-average assumptions used to determine the benefit liability						
Discount rate at end of year	5.6%	5.1%	5.3%	5.5%	5.3%	5.5%
Rate of compensation increase	3.9%	3.8%	3.8%	3.9%	3.8%	3.8%
Assumed overall health care cost trend rate	n/a	n/a	n/a	7.0%(1)	7.5%(1)	7.7%(1)
Fair value of plan assets						
Fair value of plan assets at beginning of year	\$ 4,339	\$ 3,881	\$ 3,511	\$ 68	\$ 66	\$ 58
Actual return on plan assets	434	484	371	11	6	10
Bank contributions	58	194	192	32	18	19
Voluntary employee contributions	6	6	6	—	—	—
Benefits paid to pensioners and employees	(218)	(202)	(185)	(32)	(18)	(19)
Other, primarily foreign exchange	(86)	(24)	(14)	(11)	(4)	(2)
Fair value of plan assets at end of year	\$ 4,533	\$ 4,339	\$ 3,881	\$ 68	\$ 68	\$ 66
Plan funded status						
Unrecognized actuarial loss (a)	\$ 451	\$ 91	\$ (132)	\$ (840)	\$ (884)	\$ (786)
Unrecognized cost (benefit) of plan amendments (b)	537	1,034	1,234	211	299	256
Net benefit asset (liability) at end of year	\$ 1,083	\$ 1,175	\$ 1,159	\$ (675)	\$ (630)	\$ (582)
Recorded in:						
Other assets	\$ 1,094	\$ 1,195	\$ 1,177	\$ —	\$ —	\$ —
Other liabilities	(11)	(20)	(18)	(675)	(630)	(582)
Net benefit asset (liability) at end of year	\$ 1,083	\$ 1,175	\$ 1,159	\$ (675)	\$ (630)	\$ (582)

The plans paid \$3 million for the year ended October 31, 2007 (\$3 million in 2006; \$3 million in 2005) to us and certain of our subsidiaries for investment management, record-keeping, custodial and administrative services rendered on the same terms that we offer these services to our customers. The plans did not hold any of our shares directly as at October 31, 2007, 2006 and 2005.

(1) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

(a) A continuity of our actuarial losses is as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Unrecognized actuarial loss at beginning of year	\$ 1,034	\$ 1,234	\$ 1,059	\$ 299	\$ 256	\$ 202
(Gain) loss on the benefit liability arising from changes in assumptions	(269)	121	389	(60)	58	69
(Excess) of actual returns over expected returns on plan assets	(157)	(231)	(141)	(6)	(1)	(5)
Recognition in expense of a portion of the unrecognized actuarial loss	(59)	(82)	(69)	(18)	(14)	(10)
Impact of foreign exchange and other	(12)	(8)	(4)	(4)	—	—
Unrecognized actuarial loss at end of year	\$ 537	\$ 1,034	\$ 1,234	\$ 211	\$ 299	\$ 256

(b) A continuity of the unrecognized cost (benefit) of plan amendments is as follows:

(Canadian \$ in millions)	Pension benefit plans			Other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Unrecognized cost (benefit) of plan amendments at beginning of year	\$ 50	\$ 57	\$ 46	\$ (45)	\$ (52)	\$ (59)
Cost (benefit) of plan amendments initiated during the year	55	—	15	(8)	—	—
Recognition in expense of a portion of the unrecognized cost (benefit) of plan amendments	(11)	(6)	(4)	7	7	7
Impact of foreign exchange and other	1	(1)	—	—	—	—
Unrecognized cost (benefit) of plan amendments at end of year	\$ 95	\$ 50	\$ 57	\$ (46)	\$ (45)	\$ (52)

Sensitivity of Assumptions

Key weighted-average economic assumptions used in measuring the pension benefit liability, the other employee future benefit liability and related expenses are outlined in the adjoining table. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in other key variables.

Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(Canadian \$ in millions, except as noted)	Pension		Other employee future benefits	
	Benefit liability	Benefit expense	Benefit liability	Benefit expense
Discount rate (%)	5.6	5.1	5.5	5.3
Impact of: 1% increase (\$)	(475)	(14)	(126)	(3)
1% decrease (\$)	606	19	159	4
Rate of compensation increase (%)	3.9	3.8	3.9	3.8
Impact of: 0.25% increase (\$)	34	2	1	–
0.25% decrease (\$)	(33)	(2)	(1)	–
Expected rate of return on assets (%)	n/a	6.6	n/a	8.0
Impact of: 1% increase (\$)	n/a	(40)	n/a	(1)
1% decrease (\$)	n/a	40	n/a	1
Assumed overall health care cost trend (%)	n/a	n/a	7.0(1)	7.5(1)
Impact of: 1% increase (\$)	n/a	n/a	136	12
1% decrease (\$)	n/a	n/a	(109)	(10)

(1) Trending to 4.5% in 2013 and remaining at that level thereafter.

n/a – not applicable

Cash Flows

Cash payments made by us during the year in connection with our employee future benefit plans are as follows:

(Canadian \$ in millions)	Pension benefit plans			other employee future benefit plans		
	2007	2006	2005	2007	2006	2005
Contributions to defined benefit plans	\$ 37	\$ 179	\$ 177	\$ –	\$ –	\$ –
Contributions to defined contribution plans	13	10	11	–	–	–
Benefits paid directly to pensioners	21	15	15	32	18	19
Total	\$ 71	\$ 204	\$ 203	\$ 32	\$ 18	\$ 19

Our best estimate of the amounts we expect to contribute for the year ended October 31, 2008 is \$49 million to our pension plans and \$34 million to our other employee future benefit plans.

Estimated Future Benefit Payments

Estimated future benefit payments in the next five years and thereafter are as follows:

(Canadian \$ in millions)	Pension	Other employee
	benefit plans	future benefit plans
2008	\$ 212	\$ 34
2009	220	36
2010	233	40
2011	244	42
2012	259	45
2013–2017	1,470	270

Note 24: Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception noted below for repatriation of retained earnings from our foreign subsidiaries.

In addition, we record income tax expense or benefit directly in shareholders' equity when the taxes relate to amounts recorded in shareholders' equity. For example, income tax expense on hedging gains related to our net investment in foreign operations is recorded in shareholders' equity as part of accumulated other comprehensive gain (loss) on translation of net foreign operations.

The future income tax balances included in other assets of \$235 million and other liabilities of \$nil as at October 31, 2007 (\$84 million and \$17 million, respectively, in 2006) are the cumulative amount of tax applicable to temporary differences between the accounting and tax values of our assets and liabilities. Future income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. Changes in future income tax assets and liabilities related to a change in tax rates are recorded in income in the period the tax rate change is substantively enacted.

We expect that we will realize our future income tax assets in the normal course of our operations.

Components of Future Income Tax Balances

(Canadian \$ in millions)	2007	2006
Future Income Tax Assets		
Allowance for credit losses	\$ 374	\$ 396
Employee future benefits	233	224
Deferred compensation benefits	176	197
Other Comprehensive Income	67	–
Other	33	14
Total future income tax assets	\$ 883	\$ 831
Future Income Tax Liabilities		
Premises and equipment	\$(168)	\$(255)
Pension benefits	(356)	(392)
Intangible assets	(81)	(83)
Other	(43)	(34)
Total future income tax liabilities	\$ (648)	\$ (764)

Income that we earn in foreign countries through our branches or subsidiaries is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for foreign taxes paid on this income. Upon repatriation of earnings from certain foreign subsidiaries, we would be required to pay tax on certain of these earnings. As repatriation of

such earnings is not planned in the foreseeable future, we have not recorded the related future income tax liability. The maximum Canadian and foreign taxes that would be payable, at existing tax rates, if all of our foreign subsidiaries' earnings were repatriated as at October 31, 2007, 2006 and 2005 are estimated to be \$599 million, \$583 million and \$532 million, respectively.

Provision for Income Taxes (Canadian \$ in millions)	2007	2006	2005 (1)
Consolidated Statement of Income			
Provision for income taxes – Current – Future	\$ 214 (25)	\$ 872 (155)	\$ 784 90
	189	717	874
Shareholders' Equity			
Income tax expense related to:			
Unrealized gains on available-for-sale securities, net of hedging activities	19	–	–
Losses on cash flow hedges	(86)	–	–
Hedging of unrealized loss on translation of net foreign operations	575	156	101
Other	(37)	–	–
Total	\$ 660	\$ 873	\$ 975

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have recorded in our Consolidated Statement of Income:

(Canadian \$ in millions, except as noted)	2007		2006		2005 (1)	
Combined Canadian federal and provincial income taxes at the statutory tax rate	\$ 838	35.0%	\$ 1,206	34.9%	\$ 1,160	34.8%
Increase (decrease) resulting from:						
Tax-exempt income	(116)	(4.9)	(91)	(2.6)	(88)	(2.7)
Foreign operations subject to different tax rates	(493)	(20.6)	(332)	(9.6)	(211)	(6.3)
Large corporations tax	–	–	–	–	4	0.1
Change in tax rate for future income taxes	2	0.1	(3)	(0.1)	–	–
Intangible assets not deductible for tax purposes	10	0.4	10	0.2	13	0.5
Other	(52)	(2.1)	(73)	(2.1)	(4)	(0.1)
Provision for income taxes and effective tax rate	\$ 189	7.9%	\$ 717	20.7%	\$ 874	26.3%

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

Note 25: Earnings Per Share

Basic Earnings per Share

Our basic earnings per share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

Basic earnings per share (Canadian \$ in millions, except as noted)	2007	2006	2005 (1)
Net income	\$ 2,131	\$ 2,663	\$ 2,396
Dividends on preferred shares	(43)	(30)	(30)
Net income available to common shareholders	\$ 2,088	\$ 2,633	\$ 2,366
Average number of common shares outstanding (in thousands)	499,950	501,257	500,060
Basic earnings per share (Canadian \$)	\$ 4.18	\$ 5.25	\$ 4.73

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

Components of Total Provision for Income Taxes (Canadian \$ in millions)	2007	2006	2005 (1)
Canada: Current income taxes			
Federal	\$ 457	\$ 494	\$ 430
Provincial	227	266	227
	684	760	657
Canada: Future income taxes			
Federal	(70)	(110)	34
Provincial	(34)	(51)	9
	(104)	(161)	43
Total Canadian	580	599	700
Foreign: Current income taxes	93	268	228
Future income taxes	(13)	6	47
Total foreign	80	274	275
Total	\$ 660	\$ 873	\$ 975

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

Diluted Earnings per Share

Diluted earnings per share represents what our earnings per share would have been if instruments convertible into common shares that had the impact of reducing our earnings per share had been converted either at the beginning of the year for instruments that were outstanding all year or from the date of issue for instruments issued during the year.

Convertible Shares

In determining diluted earnings per share, we increase net income available to common shareholders by dividends paid on convertible shares as these dividends would not have been paid if the shares had been converted at the beginning of the year. These dividends were less than \$1 million for the years ended October 31, 2007, 2006 and 2005. Similarly, we increase the average number of common shares outstanding by the number of shares that would have been issued had the conversion taken place at the beginning of the year.

Our Series 6 and 10 Class B Preferred shares, in certain circumstances, are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as we have the option to settle the conversion in cash instead of common shares.

Employee Stock Options

In determining diluted earnings per share, we increase the average number of common shares outstanding by the number of shares that would have been issued if all stock options with a strike price below the average share price for the year had been exercised. When performance targets have not been met, affected options are excluded from the calculation. We also decrease the average number of common shares outstanding by the number of our common shares that we could have repurchased if we had used the proceeds from the exercise of stock options to repurchase them on the open market at the average share price for the year. We do not adjust for stock options with a strike price above the average share price for the year because including them would increase our earnings per share, not dilute it.

Diluted earnings per share

(Canadian \$ in millions, except as noted)	2007	2006	2005 (1)
Net income available to common shareholders	\$ 2,088	\$ 2,633	\$ 2,366
Average number of common shares outstanding (in thousands)	499,950	501,257	500,060
Convertible shares	271	328	361
Stock options potentially exercisable (2)	18,492	21,629	25,424
Common shares potentially repurchased	(10,099)	(12,041)	(15,000)
Average diluted number of common shares outstanding (in thousands)	508,614	511,173	510,845
Diluted earnings per share (Canadian \$)	\$ 4.11	\$ 5.15	\$ 4.63

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

(2) In computing diluted earnings per share we excluded average stock options outstanding of 317,266, 174,485 and 410,265 with weighted-average exercise prices of \$67.89, \$63.14 and \$56.60 for the years ended October 31, 2007, 2006 and 2005, respectively.

Note 26: Operating and Geographic Segmentation

Operating Groups

We conduct our business through operating groups, each of which has a distinct mandate. We determine operating groups based on our management structure and therefore our groups, and results attributed to them, may not be comparable with those of other financial services companies. We evaluate the performance of our groups using measures such as net income, revenue growth, return on equity, net economic profit and non-interest expense-to-revenue (productivity) ratio.

Beginning in the year ended October 31, 2006, we amended our operating group segmentation to include both Personal and Commercial Banking Canada and Personal and Commercial Banking U.S. as reporting units. Prior period information has been restated to reflect this new reporting basis.

Personal and Commercial Banking

Personal and Commercial Banking ("P&C") is comprised of two operating segments: Personal and Commercial Banking Canada and Personal and Commercial Banking U.S.

Personal and Commercial Banking Canada

Personal and Commercial Banking Canada ("P&C Canada") offers a full range of consumer and business loan and deposit products, including deposit and investment services, mortgages, consumer credit, business lending, cash management and other banking services.

Personal and Commercial Banking U.S.

Personal and Commercial Banking U.S. ("P&C U.S.") offers a full range of products and services to personal and business clients in the United States, primarily in the Chicago area and Indiana, through branches and direct banking channels such as telephone banking, online banking and a network of automated banking machines.

Private Client Group

Private Client Group ("PCG") brings together all of our wealth management businesses. Operating under the BMO brand in Canada and Harris in the United States, PCG serves a full range of client segments, from mainstream to ultra-high net worth, as well as select institutional market segments. We offer our clients a broad range of wealth management products and services, including full-service and online brokerage in Canada and private banking and investment products in Canada and the United States.

BMO Capital Markets

BMO Capital Markets ("BMO CM") combines all of our businesses serving corporate, institutional and government clients. In Canada and the United States, its clients span a broad range of industry sectors.

BMO CM also serves clients in the United Kingdom, Europe, Asia and Australia. It offers clients complete financial solutions, including equity and debt underwriting, corporate lending and project financing, mergers and acquisitions advisory services, merchant banking, securitization, treasury and market risk management, debt and equity research and institutional sales and trading.

Corporate Services

Corporate Services includes the corporate units that provide expertise and governance support in areas such as strategic planning, law, finance, internal audit, risk management, corporate communications, economics, corporate marketing, human resources and learning. Operating results include revenues and expenses associated with certain securitization activities, the hedging of foreign-source earnings, and activities related to the management of certain balance sheet positions and our overall asset liability structure.

Technology and Operations ("T&O") manages, maintains and provides governance over our information technology, operations services, real estate and sourcing. T&O focuses on enterprise-wide priorities that improve quality and efficiency to deliver an excellent customer experience.

Operating results for T&O are included with Corporate Services for reporting purposes. However, costs of T&O services are transferred to three operating groups. As such, results for Corporate Services largely reflect the activities outlined above.

Corporate Services also includes residual revenues and expenses representing the differences between actual amounts earned or incurred and the amounts allocated to operating groups.

Basis of Presentation

The results of these operating segments are based on our internal financial reporting systems. The accounting policies used in these segments are generally consistent with those followed in the preparation of our consolidated financial statements as disclosed in Note 1 and throughout the consolidated financial statements. Notable accounting measurement differences are the taxable equivalent basis adjustment and the provision for credit losses, as described below.

Taxable Equivalent Basis

We analyze net interest income on a taxable equivalent basis ("teb"). This basis includes an adjustment which increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level that would incur tax at the statutory rate.

Analysis on a теб basis neutralizes the impact of investing in tax-exempt or tax-advantaged securities rather than fully taxable securities with higher yields. It reduces distortions in net interest income related to the choice of tax-advantaged and taxable investments.

Provisions for Credit Losses

Provisions for credit losses are generally allocated to each group based on expected losses for that group over an economic cycle. Differences between expected loss provisions and provisions required under GAAP are included in Corporate Services.

Inter-Group Allocations

Various estimates and allocation methodologies are used in the preparation of the operating groups' financial information. We allocate expenses directly related to earning revenue to the groups that earned the related revenue. Expenses not directly related to earning revenue,

such as overhead expenses, are allocated to operating groups using allocation formulas applied on a consistent basis. Operating group net interest income reflects internal funding charges and credits on the groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in Corporate Services.

Geographic Information

We operate primarily in Canada and the United States but also have operations in the United Kingdom, Europe, the Caribbean and Asia, which are grouped in Other countries. We allocate our results by geographic region based on the location of the unit responsible for managing the related assets, liabilities, revenues and expenses, except for the consolidated provision for credit losses, which is allocated based upon the country of ultimate risk.

Our results and average assets, grouped by operating segment and geographic region, are as follows:

(Canadian \$ in millions)	P&C Canada	P&C U.S.	PCG	BMO CM	Corporate Services(1)	Total (tab basis)	Teb adjustments	Total (GAAP basis)	Canada	United States	Other countries
2007											
Net interest income	\$ 3,065	\$ 730	\$ 613	\$ 974	\$ (359)	\$ 5,023	\$ (180)	\$ 4,843	\$ 3,745	\$ 973	\$ 305
Non-interest revenue	1,678	178	1,441	995	214	4,506	—	4,506	3,836	582	88
Total Revenue	4,743	908	2,054	1,969	(145)	9,529	(180)	9,349	7,581	1,555	393
Provision for credit losses	323	35	3	77	(85)	353	—	353	257	99	(3)
Non-interest expense	2,670	696	1,427	1,565	243	6,601	—	6,601	4,785	1,653	163
Income before taxes and non-controlling interest in subsidiaries	1,750	177	624	327	(303)	2,575	(180)	2,395	2,539	(197)	233
Income taxes	500	63	216	(98)	(312)	369	(180)	189	546	(150)	(27)
Non-controlling interest in subsidiaries	—	—	—	—	75	75	—	75	55	20	—
Net Income	\$ 1,250	\$ 114	\$ 408	\$ 425	\$ (66)	\$ 2,131	\$ —	\$ 2,131	\$ 1,938	\$ (67)	\$ 260
Average Assets	\$ 119,164	\$ 23,477	\$ 7,091	\$ 207,084	\$ 3,759	\$ 360,575	\$ —	\$ 360,575	\$ 216,572	\$ 111,150	\$ 32,853
Goodwill (As at)	\$ 106	\$ 628	\$ 313	\$ 91	\$ 2	\$ 1,140	\$ —	\$ 1,140	\$ 423	\$ 717	\$ —
2006											
Net interest income	\$ 2,941	\$ 740	\$ 569	\$ 773	\$ (152)	\$ 4,871	\$ (127)	\$ 4,744	\$ 3,709	\$ 1,016	\$ 146
Non-interest revenue	1,639	166	1,324	2,007	105	5,241	—	5,241	3,686	1,375	180
Total Revenue	4,580	906	1,893	2,780	(47)	10,112	(127)	9,985	7,395	2,391	326
Provision for credit losses	314	30	3	79	(250)	176	—	176	181	(3)	(2)
Non-interest expense	2,597	681	1,342	1,602	131	6,353	—	6,353	4,520	1,695	138
Income before taxes and non-controlling interest in subsidiaries	1,669	195	548	1,099	72	3,583	(127)	3,456	2,694	699	190
Income taxes	527	80	193	239	(195)	844	(127)	717	650	207	(13)
Non-controlling interest in subsidiaries	—	—	—	—	76	76	—	76	55	21	—
Net Income	\$ 1,142	\$ 115	\$ 355	\$ 860	\$ 191	\$ 2,663	\$ —	\$ 2,663	\$ 1,989	\$ 471	\$ 203
Average Assets	\$ 114,364	\$ 21,890	\$ 6,545	\$ 161,811	\$ 4,521	\$ 309,131	\$ —	\$ 309,131	\$ 191,929	\$ 90,317	\$ 26,885
Goodwill (As at)	\$ 93	\$ 582	\$ 323	\$ 98	\$ 2	\$ 1,098	\$ —	\$ 1,098	\$ 410	\$ 688	\$ —
2005 (2)											
Net interest income	\$ 2,829	\$ 732	\$ 578	\$ 966	\$ (199)	\$ 4,906	\$ (119)	\$ 4,787	\$ 3,584	\$ 1,186	\$ 136
Non-interest revenue	1,490	165	1,459	1,775	163	5,052	—	5,052	3,435	1,454	163
Total Revenue	4,319	897	2,037	2,741	(36)	9,958	(119)	9,839	7,019	2,640	299
Provision for credit losses	269	30	4	98	(222)	179	—	179	190	15	(26)
Non-interest expense	2,481	659	1,529	1,480	183	6,332	—	6,332	4,323	1,881	128
Income before taxes and non-controlling interest in subsidiaries	1,569	208	504	1,163	3	3,447	(119)	3,328	2,506	744	197
Income taxes	493	84	190	313	(87)	993	(119)	874	800	246	(53)
Non-controlling interest in subsidiaries	—	—	—	—	58	58	—	58	36	22	—
Net Income	\$ 1,076	\$ 124	\$ 314	\$ 850	\$ 32	\$ 2,396	\$ —	\$ 2,396	\$ 1,670	\$ 476	\$ 250
Average Assets	\$ 105,963	\$ 21,055	\$ 7,061	\$ 157,234	\$ 5,189	\$ 296,502	\$ —	\$ 296,502	\$ 188,124	\$ 82,789	\$ 25,589
Goodwill (As at)	\$ 93	\$ 568	\$ 327	\$ 100	\$ 3	\$ 1,091	\$ —	\$ 1,091	\$ 411	\$ 680	\$ —

(1) Corporate Services includes Technology and Operations.

(2) Amounts have been restated to reflect the change in accounting policy described in Notes 3 and 22.

Prior years have been restated to give effect to the current year's organization structure and presentation changes.

Note 27: Related Party Transactions

Related parties include directors, executives and their affiliates, along with joint ventures and equity-accounted investees.

Directors, Executives and Their Affiliates

Effective September 1, 1999, new loans and mortgages to executives were no longer available at preferred rates, other than loans related to transfers we initiate. The transferee loan amounts outstanding under preferred rate mortgage loan agreements were \$68 million and \$70 million at October 31, 2007 and 2006, respectively. The interest earned on these loans is recorded in interest, dividend and fee income in our Consolidated Statement of Income.

We provide certain banking services to our directors, executives and their affiliated entities. We offer these services on the same terms that we offer to our customers. Loans to directors, executives and their affiliates totalled \$10 million and \$8 million at October 31, 2007 and 2006, respectively.

Board of Directors Compensation

Stock Option Plan

In fiscal 2002, we introduced a stock option plan for non-officer directors, the terms of which are the same as the plan for designated officers and employees described in Note 22. During fiscal year 2003, we granted 42,000 stock options at an exercise price of \$43.25 per share. The granting of options under the Non-Officer Director Stock Option Plan was discontinued effective November 1, 2003.

Stock option expense for this plan is calculated in the same manner as employee stock option expense. It was included in other expenses in our Consolidated Statement of Income and was less than \$1 million for the years ended October 31, 2007, 2006 and 2005.

Deferred Share Units

Members of our Board of Directors are required to take 100% of their annual retainers and other fees in the form of either our common shares (purchased on the open market) or deferred share units until such time as the directors' shareholdings are greater than six times their annual retainers as directors. After this threshold is reached, directors are required to take at least 50% of their annual retainers in this form.

Deferred share units allocated under this deferred share unit plan are adjusted to reflect dividends and changes in the market value of our common shares. The value of these deferred share units will be paid upon termination of service as a director. The expense for this plan was included in other expenses in our Consolidated Statement of Income and totalled \$5 million, \$2 million and \$3 million for the years ended October 31, 2007, 2006 and 2005, respectively.

Joint Ventures and Equity-Accounted Investees

We provide banking services to our joint ventures and equity-accounted investees on the same terms that we offer to our customers.

We are a 50% joint venture partner for which our common share investment was \$296 million at October 31, 2007 (\$275 million in 2006), which was eliminated upon proportionate consolidation.

Our investment in the entities where we exert significant influence totalled \$962 million as at October 31, 2007 (\$937 million in 2006).

Employees

A select suite of customer loan and mortgage products is now offered to employees at rates normally accorded to preferred customers.

We also offer employees a fee-based subsidy on annual credit card fees.

Note 28: Contingent Liabilities

(a) Legal Proceedings

In the bankruptcy of Adelphia Communications Corporation ("Adelphia"), the Official Committees of Unsecured Creditors and Equity Security Holders filed Complaints against Bank of Montreal, its indirect subsidiary BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) and approximately 380 other financial institutions. The Complaints allege various federal statutory and common law claims and seek an unspecified amount of compensatory and punitive damages, along with equitable relief. The actions have now been withdrawn from the Bankruptcy Court and are pending before the United States District Court for the Southern District of New York. As a result of the confirmation of various Adelphia plans of reorganization, a special purpose entity, the Adelphia Recovery Trust ("ART"), has replaced the committees as the plaintiff in these actions.

In addition, Bank of Montreal and BMO Capital Markets Corp. are two of many financial institutions named in civil actions brought by investors in Adelphia securities. Defendants reached a settlement agreement in connection with the most significant of these actions, a consolidated class action brought by Adelphia security holders, which settlement was subsequently approved by the District Court. The settlement is currently being appealed by certain putative class members. Unless the appeal of the consolidated class action settlement is successful, that settlement bars all future civil actions against Bank of Montreal and BMO Capital Markets Corp. by Adelphia investors except for two actions brought by groups of plaintiffs who chose to opt out of the consolidated class action settlement. Actions by these two groups of plaintiffs, seeking unspecified damages, are currently pending before the District Court. Since the ART action is brought by Adelphia

and its creditors, as opposed to Adelphia's investors, it is not affected by the class action settlement.

As these matters remain in various intermediate procedural stages, we are unable to determine the eventual outcome of these matters, but management believes that the Bank and BMO Capital Markets Corp. have strong defences to these claims and will vigorously defend against all such actions.

BMO Nesbitt Burns Inc., an indirect subsidiary of Bank of Montreal, has been named as a defendant in several individual actions and proposed class actions in Canada brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Two of the proposed class actions in Canada have been dismissed as to BMO Nesbitt Burns Inc. A proposed U.S. class action was dismissed as against BMO Nesbitt Burns Inc. in October 2005. BMO Nesbitt Burns Inc., Bank of Montreal and BMO Capital Markets Corp. (previously Harris Nesbitt Corp.) are also defendants in an individual action in the United States.

Other defendants named in one or more of the actions referred to above include Bre-X, officers and directors of Bre-X, a mining consulting firm retained by Bre-X, Bre-X's financial advisor, brokerage firms which sold Bre-X common stock and a major gold production company. These actions are largely based on allegations of negligence and negligent and/or fraudulent misrepresentation in connection with the sale of Bre-X securities.

As these matters are all in the early stages, we are unable to determine the eventual outcome of these matters, but management believes that BMO Nesbitt Burns Inc., the Bank and BMO Capital Markets Corp. have strong defences to these claims and will vigorously defend against all such actions.

Following our disclosures of mark-to-market losses in our commodities trading businesses on April 27, 2007 and May 17, 2007 aggregating \$680 million (pre-tax) as of April 30, 2007, the Bank has received inquiries, requests for documents or subpoenas pertaining to those trading losses from securities, commodities, banking and law enforcement authorities. The Bank is cooperating with all of these authorities.

The Bank and its subsidiaries are party to other legal proceedings, including regulatory investigations, in the ordinary course of their businesses. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(b) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. The following tables summarize our pledged assets, to whom they are pledged and in relation to what activity:

	(Canadian \$ in millions)	2007	2006
Cash resources	\$ 65	\$ 9	
Securities			
Issued or guaranteed by Canada	8,758	5,999	
Issued or guaranteed by a Canadian province, municipality or school corporation	3,648	2,234	
Other securities	17,441	17,724	
Securities borrowed or purchased under resale agreements and other	25,475	25,436	
Total assets pledged	\$ 55,387	\$ 51,402	

Excludes restricted cash resources disclosed in Note 2.

	(Canadian \$ in millions)	2007	2006
Assets pledged to: (1)			
Clearing systems, payment systems and depositories	\$ 1,371	\$ 1,351	
Bank of Canada	1,768	1,734	
Foreign governments and central banks	1,381	3,247	
Assets pledged in relation to:			
Obligations related to securities lent or sold under repurchase agreements	24,837	28,477	
Securities borrowing and lending	19,435	11,709	
Derivatives transactions	3,959	2,010	
Other	2,636	2,874	
Total	\$ 55,387	\$ 51,402	

Certain comparative figures have been reclassified to conform with the current year's presentation.

Excludes cash pledged with central banks disclosed as restricted cash in Note 2.

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

Note 29: Fair Value of Financial Instruments

We record trading assets and liabilities, derivatives, available-for-sale securities and securities sold but not yet purchased at market values and other non-trading assets and liabilities at their original amortized cost less allowances or write-downs for impairment. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of the legal entities or underlying operations that comprise our business.

Fair value amounts disclosed represent point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value represents our estimate of the amounts for which we could exchange the financial instruments with willing third parties who were interested in acquiring the instruments. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into the underlying contract. These calculations represent management's best estimates based on a range of methodologies and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments.

Interest rate changes are the main cause of changes in the fair value of our financial instruments.

Items that are not financial instruments, such as premises and equipment, goodwill and intangible assets, have been excluded from our estimate of fair value. The assets excluded totalled \$3,244 million as at October 31, 2007 (\$3,297 million in 2006).

Financial Instruments Whose Book Value Approximates Fair Value

Fair value is assumed to equal book value for acceptance-related assets and liabilities and securities lent or sold under repurchase agreements, due to the short-term nature of these assets and liabilities. Fair value is also assumed to equal book value for our cash resources, certain other assets and certain other liabilities.

Loans

In determining the fair value of our loans, we incorporate the following assumptions:

- For fixed rate performing loans, we discount the remaining contractual cash flows, adjusted for estimated prepayment, at market interest rates currently offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on fair value since loans reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

The value of our loan balances determined using the above assumptions is further reduced by the allowance for credit losses to determine the fair value of our loan portfolio.

Securities

The fair value of our securities, both trading and available-for-sale, by instrument type and the methods used to determine fair value are provided in Note 3.

Derivative Instruments

The methods used to determine the fair value of derivative instruments are provided in Note 9.

Deposits

In determining the fair value of our deposits, we incorporate the following assumptions:

- For fixed rate, fixed maturity deposits, we discount the remaining contractual cash flows for these deposits, adjusted for expected redemptions, at market interest rates currently offered for deposits with similar terms and risks.
- For floating rate, fixed maturity deposits, changes in interest rates have minimal impact on fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal book value.
- For deposits with no defined maturities, we consider fair value to equal book value based on book value being equivalent to the amount payable on the reporting date.

Subordinated Debt, Preferred Share Liability and Capital Trust Securities

The fair value of our subordinated debt, preferred share liability and capital trust securities is determined by referring to current market

prices for similar instruments. Set out in the following table are the amounts that would be reported if all of our financial instrument assets and liabilities were reported at their fair values.

(Canadian \$ in millions)	2007			2006		
	Book value	Fair value	Fair value over (under) book value	Book value	Fair value	Fair value over (under) book value
Assets						
Cash resources	\$ 22,890	\$ 22,890	\$ -	\$ 19,608	\$ 19,608	\$ -
Securities	98,277	98,277	-	67,411	67,466	55
Loans and customers' liability under acceptances, net of the allowance for credit losses	201,188	199,970	(1,218)	190,994	189,731	(1,263)
Derivative instruments	32,585	32,585	-	30,411	30,481	70
Other assets	8,340	8,340	-	8,257	8,257	-
	\$ 363,280	\$ 362,062	\$ (1,218)	\$ 316,681	\$ 315,543	\$ (1,138)
Liabilities						
Deposits	\$ 232,050	\$ 232,202	\$ 152	\$ 203,848	\$ 203,992	\$ 144
Derivative instruments	33,584	33,584	-	31,446	31,555	109
Acceptances	12,389	12,389	-	7,223	7,223	-
Securities sold but not yet purchased	25,039	25,039	-	15,398	15,398	-
Securities lent or sold under repurchase agreements	31,263	31,263	-	31,918	31,918	-
Other liabilities	12,055	12,023	(32)	10,758	10,780	22
Subordinated debt	3,446	3,491	45	2,726	2,888	162
Preferred share liability	250	250	-	450	462	12
Capital trust securities	1,150	1,198	48	1,150	1,253	103
	\$ 351,226	\$ 351,439	\$ 213	\$ 304,917	\$ 305,469	\$ 552
Total			\$ (1,431)			\$ (1,690)

Certain comparative figures have been reclassified to conform with the current year's presentation.

Note 30: Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with GAAP in Canada, including interpretations of GAAP by our regulator, the Superintendent of Financial Institutions Canada.

We have included the significant differences that would result if United States GAAP were applied in the preparation of our Consolidated

Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, and Consolidated Statement of Accumulated Other Comprehensive Income. We have not included our Consolidated Statement of Cash Flows as the differences are immaterial.

Condensed Consolidated Statement of Income For the Year Ended October 31 (Canadian \$ in millions, except per share amounts)	2007	2006	2005 (1)
Net income, as reported under Canadian GAAP	\$ 2,131	\$ 2,663	\$ 2,396
Adjustments to arrive at United States GAAP:			
Net Interest Income			
Liabilities and equity (j)	99	99	97
Non-Interest Revenue			
Merchant banking (k)	7	(21)	(83)
Fair value option (b)	(8)	-	-
Variable interest entities (a)	-	-	(13)
Derivatives (d)	-	(32)	(66)
Non-Interest Expense			
Stock-based compensation (e)	(17)	(31)	(6)
Software development costs (f)	(42)	(42)	(42)
Pension and related benefits (c)	-	4	2
Goodwill and other assets (g)	5	5	5
Income taxes and net change in income taxes (h) (including adjustments due to items listed above)	19	40	65
Non-controlling interest in subsidiaries (j)	(79)	(79)	(79)
Net income based on United States GAAP	\$ 2,115	\$ 2,606	\$ 2,276
Earnings per share: basic			
- Canadian GAAP net income	\$ 4.18	\$ 5.25	\$ 4.73
- United States GAAP net income	4.14	5.14	4.49
Earnings per share: diluted			
- Canadian GAAP net income	\$ 4.11	\$ 5.15	\$ 4.63
- United States GAAP net income	4.08	5.04	4.40

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

Consolidated Statement of Comprehensive Income

For the Year Ended October 31 (Canadian \$ in millions)

	2007	2006	2005 (1)
Total Comprehensive Income, as reported under Canadian GAAP	\$ 1,435	\$ 2,486	\$ 2,281
Adjustments to arrive at United States GAAP:			
Net income adjustments, as per Condensed Consolidated Statement of Income	(16)	(57)	(120)
Unrealized holding gains on available-for-sale securities, net of hedging activities (m) (2)	–	151	99
Realized gains on available-for-sale securities recognized in net income (m) (3)	–	(94)	(107)
Unrealized losses on derivatives designated as cash flow hedges (d) (4)	–	(71)	(49)
Net gains (losses) on derivatives designated as cash flow hedges recognized in net income (d) (5)	–	(5)	5
Unrealized gain on translation of net foreign operations, net of hedging activities (g)	9	5	1
Pension and other employee future benefits (c) (6)	(486)	6	12
Total Comprehensive Income based on United States GAAP	\$ 942	\$ 2,421	\$ 2,122

(1) Amounts have been restated to reflect the change in accounting policy described in Note 22.

(4) Net of income taxes of \$38 million in 2006 and \$26 million in 2005.

(2) Net of income taxes of \$82 million in 2006 and \$53 million in 2005.

(5) Net of income taxes of \$3 million in 2006 and \$41 million in 2005.

(3) Net of income taxes of \$51 million in 2006 and \$58 million in 2005.

(6) Net of income taxes of \$279 million in 2007, \$3 million in 2006 and \$26 million in 2005.

Condensed Consolidated Balance Sheet

As at October 31 (Canadian \$ in millions)

	2007	2006				
	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Assets						
Cash Resources (o)	\$ 22,890	\$ (1,994)	\$ 20,896	\$ 19,608	\$ (2,119)	\$ 17,489
Securities – Trading (n)	70,773	(505)	70,268	51,820	–	51,820
– Available-for-sale (d,i,k,m,n)	26,010	2,225	28,235	–	18,024	18,024
– Other and loan substitutes (k,m)	1,494	(97)	1,397	15,591	(15,591)	–
Loans and customers' liability under acceptances, net of the allowance for credit losses (d,o)	201,188	1,994	203,182	190,994	2,088	193,082
Derivative instruments (d)	32,585	–	32,585	30,411	377	30,788
Premises and equipment (f)	1,980	(3)	1,977	2,047	38	2,085
Goodwill (g)	1,140	(33)	1,107	1,098	(39)	1,059
Intangible assets (c,g)	124	(8)	116	152	(15)	137
Other assets (c,d,e,n)	8,340	7,629	15,969	8,257	7,371	15,628
Total Assets	\$ 366,524	\$ 9,208	\$ 375,732	\$ 319,978	\$ 10,134	\$ 330,112
Liabilities and Shareholders' Equity						
Deposits (b,d)	\$ 232,050	\$ 8	\$ 232,058	\$ 203,848	\$ 62	\$ 203,910
Derivative instruments (d)	33,584	–	33,584	31,446	153	31,599
Acceptances	12,389	–	12,389	7,223	–	7,223
Securities sold but not yet purchased	25,039	–	25,039	15,398	–	15,398
Securities lent or sold under repurchase agreements	31,263	–	31,263	31,918	–	31,918
Other liabilities (c,d,i,j,n)	12,055	10,963	23,018	10,758	11,109	21,867
Subordinated debt (d)	3,446	–	3,446	2,726	(45)	2,681
Preferred share liability (j)	250	(250)	–	450	(450)	–
Capital trust securities (j)	1,150	(1,150)	–	1,150	(1,150)	–
Shareholders' equity (d,e,l)	15,298	(363)	14,935	15,061	455	15,516
Total Liabilities and Shareholders' Equity	\$ 366,524	\$ 9,208	\$ 375,732	\$ 319,978	\$ 10,134	\$ 330,112

Consolidated Statement of Accumulated Other Comprehensive Income

For the Year Ended October 31 (Canadian \$ in millions)

	2007	2006
Total Accumulated Other Comprehensive Loss, as reported under Canadian GAAP	\$ (1,533)	\$ (789)
Adjustments to arrive at United States GAAP:		
Net unrealized gains on available-for-sale securities (m)	–	60
Unrealized gains on derivatives designated as cash flow hedges (d)	–	154
Unrealized gain on translation of net foreign operations, net of hedging activities	41	32
Pension and other employee future benefits (c)	(518)	(32)
Total Accumulated Other Comprehensive Loss based on United States GAAP	\$ (2,010)	\$ (575)

(a) Variable Interest Entities

Under United States GAAP, we adopted a new accounting standard on the consolidation of variable interest entities ("VIEs") effective January 31, 2004. The standard is now consistent with Canadian GAAP.

When we adopted this new U.S. accounting standard on January 31, 2004, it resulted in the consolidation of our multi-seller conduits. We recorded a one-time transition adjustment of \$111 million in the Consolidated Statement of Income as the cumulative effect of an accounting change related to unrealized losses on interest rate swaps held by our VIEs to hedge their exposure to interest rate risk. These derivative instruments had been accounted for as hedging

derivatives under Canadian GAAP but did not meet the detailed hedge accounting requirements under United States GAAP in prior periods. As a result, although they were effective as economic hedges, they were required to be marked to market under United States GAAP.

On April 29, 2005, we restructured our multi-seller conduits by either terminating or changing the terms of our swaps with the VIEs and amending some of the rights of noteholders in the VIEs. As a result, they no longer meet the criteria for consolidation. The impact of deconsolidating these VIEs was a decrease in non-interest revenue of \$13 million representing the reversal of unamortized mark-to-market losses on swaps.

During the year ended October 31, 2006, under United States GAAP we adopted new accounting guidance that provides clarification on VIEs and their consolidation requirements. There was no material impact on our consolidated financial statements under United States GAAP as a result of this accounting guidance.

(b) Fair Value Option

Effective November 1, 2006, we adopted a new Canadian accounting standard which allows us to elect to measure financial instruments that would not otherwise be accounted for at fair value as trading instruments, with changes in fair value recorded in income provided they meet certain criteria. Financial instruments must have been designated on November 1, 2006, when the standard was adopted, or when new financial instruments were acquired, and the designation is irrevocable.

The Financial Accounting Standards Board (FASB) has issued new rules that will eliminate this difference. We expect to adopt these new rules in fiscal 2008. Until we adopt these new rules under United States GAAP, an adjustment is made to our Consolidated Statement of Income to reverse the impact of the changes in fair value recorded in income under Canadian GAAP.

(c) Pension and Other Employee Future Benefits

Effective October 31, 2007, United States GAAP requires us to recognize the excess of the fair value of our plan assets compared to the corresponding benefit obligation as an asset and the shortfall of the fair value of our plan assets compared to the corresponding benefit obligation as a liability. This is done on a plan-by-plan basis. The offsetting adjustment is recorded in Accumulated Other Comprehensive Income. This new guidance replaces the United States GAAP requirement to recognize an additional minimum pension liability in cases where the obligation, calculated without taking salary increases into account, exceeds the fair value of plan assets at year end. There is no change in the calculation of the pension and other employee future benefits expense. Under Canadian GAAP, there is no similar requirement.

Under United States GAAP, both pension and other employee future benefits are recorded in our Consolidated Statement of Income in the period services are provided by our employees. The related obligations are valued using current market rates. Under Canadian GAAP, prior to November 1, 2000, pension benefits were recorded in our Consolidated Statement of Income in the period services were provided by our employees, with the corresponding obligation valued using management's best estimate of the long-term rate of return on plan assets, while other employee future benefits were expensed as incurred. Effective November 1, 2000, we adopted a new Canadian accounting standard on pension and other employee future benefits that eliminated the difference between Canadian and United States GAAP. When we adopted this new standard, we accounted for the change in accounting as a charge to retained earnings. As a result, there will continue to be an adjustment to our Consolidated Statement of Income until amounts previously deferred under United States GAAP have been fully amortized to income.

(d) Derivatives

Under United States GAAP, hedging derivatives are recorded at fair value in our Consolidated Balance Sheet. Changes in the fair value of hedging derivatives are either offset in our Consolidated Statement of Income against the change in the fair value of the hedged asset, liability or firm commitment, or are recorded in accumulated other comprehensive income until the hedged item is recorded in our Consolidated Statement of Income. If the change in the fair value of the derivative is not completely offset by the change in the fair value of the item it is hedging, the difference is recorded immediately in our Consolidated Statement of Income.

Prior to November 1, 2006, hedging derivatives were accounted for on an accrual basis, with gains or losses deferred and recorded in income on the same basis as the underlying hedged item under Canadian GAAP. Canadian GAAP changed on November 1, 2006 to eliminate this difference.

(e) Stock-based Compensation

Under United States GAAP, the fair value of stock options on their grant date is recorded as compensation expense over the period that the options vest. Under Canadian GAAP, prior to November 1, 2002, we included the amount of proceeds in shareholders' equity when the options were exercised and did not recognize any compensation expense. Effective November 1, 2002, we adopted a new Canadian accounting standard on stock-based compensation that eliminated this difference for stock options granted on or after November 1, 2002. As a result, there will continue to be an adjustment to our Consolidated Statement of Income until stock option expense has been fully recognized for stock options granted prior to November 1, 2002 under United States GAAP.

Effective November 1, 2005, under United States GAAP, stock-based compensation granted to employees who are eligible to retire was expensed at the time of grant. We adopted this new standard prospectively, beginning with grants issued in fiscal 2006. We retroactively adopted new Canadian accounting guidance on stock-based compensation during the year ended October 31, 2006, which conformed with the United States accounting standard. Due to the differences in the methods of adoption, there will continue to be an adjustment to our Consolidated Statement of Income until the stock-based compensation granted prior to November 1, 2005 has been fully amortized.

(f) Software Development Costs

Under United States GAAP, costs of internally developed software are required to be capitalized and amortized over the expected useful life of the software. Under Canadian GAAP, prior to November 1, 2003, only costs paid to third parties related to internally developed software were capitalized and amortized over the expected useful life of the software. Effective November 1, 2003, we adopted a new Canadian accounting standard on sources of GAAP that eliminated this difference for software development costs incurred after October 31, 2003. There will continue to be an adjustment to our Consolidated Statement of Income until software development costs capitalized prior to fiscal 2004 are fully amortized.

(g) Goodwill and Other Assets

Under United States GAAP, our acquisition of Suburban Bancorp, Inc. in 1994 would have been accounted for using the pooling of interests method. Under Canadian GAAP, we accounted for this acquisition using the purchase method, which resulted in the recognition and amortization of goodwill and other intangible assets associated with the acquisition. Effective November 1, 2001, goodwill is no longer amortized to income under either United States or Canadian GAAP. The remaining difference relates to the amortization of intangible assets under Canadian GAAP.

(h) Income Taxes

In addition to the tax impact of differences outlined above, under United States GAAP, tax rate changes do not impact the measurement of our future income tax balances until they are passed into law. Under Canadian GAAP, tax rate changes are recorded in income in the period the tax rate change is substantively enacted.

(i) Non-Cash Collateral

Under United States GAAP, non-cash collateral received in security lending transactions that we are permitted by contract to sell or re-pledge is recorded as an asset in our Consolidated Balance Sheet and a corresponding liability is recorded for the obligation to return the collateral. Under Canadian GAAP, such collateral and the related obligation are not recorded in our Consolidated Balance Sheet. As a result of this difference, available-for-sale securities and other liabilities have been increased by \$2,225 million and \$1,545 million for the years ended October 31, 2007 and 2006, respectively.

(j) Liabilities and Equity

Under United States GAAP, certain of our preferred shares and capital trust securities are classified as equity and non-controlling interest, with payments recognized as dividends and minority interest, respectively. Under Canadian GAAP, as both instruments are ultimately convertible into a variable number of our common shares at the holders' option, they are classified as liabilities, with payments recognized as interest expense.

(k) Merchant Banking Investments

Under United States GAAP, our merchant banking subsidiaries account for their investments at cost or under the equity method. Under Canadian GAAP, these subsidiaries account for their investments at fair value, with changes in fair value recorded in income as they occur.

(l) Shareholders' Equity

Accumulated other comprehensive income is recorded as a separate component of shareholders' equity under United States GAAP. Prior to November 1, 2006, Canadian GAAP did not permit presentation of other comprehensive income. Effective November 1, 2006, Canadian GAAP changed to eliminate this difference.

(m) Available-for-Sale Securities

Under United States GAAP, we have designated as available-for-sale all of our securities other than trading securities, loan substitute securities and investments in corporate equity where we exert significant influence but not control. Available-for-sale securities are carried at fair value, with any unrealized gains or losses recorded in other comprehensive income unless impaired. Other than temporary impairment is recorded in income. Prior to November 1, 2006, under Canadian GAAP, investment securities were carried at cost or amortized cost. Canadian GAAP changed on November 1, 2006 to eliminate this difference.

(n) Accounting for Securities Transactions

Under United States GAAP, securities transactions are recognized in our Consolidated Balance Sheet when the transaction is entered into. Under Canadian GAAP, securities transactions are recognized in our Consolidated Balance Sheet when the transaction is settled.

(o) Bankers' Acceptances

Under United States GAAP, bankers' acceptances purchased from other banks are classified as loans. Under Canadian GAAP, bankers' acceptances purchased from other banks are recorded as cash resources (deposits with banks) in our Consolidated Balance Sheet.

Changes in Accounting Policy***Hybrid Financial Instruments***

Effective November 1, 2006, we adopted the new United States accounting standard on hybrid financial instruments. The new rules allow us to elect to measure certain hybrid financial instruments at fair value in their entirety, with any changes in fair value recognized in earnings. Under the previous rules, only the embedded derivative in the hybrid financial instrument was recorded at fair value. We did not elect to measure any hybrid financial instruments at fair value. The new standard did not have any impact on our consolidated financial statements.

Future Changes in Accounting Policy***Accounting for Uncertainty in Income Taxes***

The FASB issued guidance on the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation clarifies that an entity's tax benefits recognized in tax returns must be more likely than not of being sustained on audit prior to recording the related tax benefit in the financial statements. This standard is effective November 1, 2007. The impact of this standard will not be significant.

Fair Value Measurement

The FASB has issued a new standard which clarifies the definition of "fair value" applicable under all United States accounting standards, with some limited exceptions. The standard establishes a single definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The objective of the standard is to increase consistency, reliability and comparability in fair value measurements, and to enhance disclosures to help users of financial statements assess the effects of the fair value measurements used in financial reporting. The framework provides a hierarchy for reliably determining fair value based on the definition in the standard. This standard is effective November 1, 2008. Our current policy on accounting for fair value measurement is consistent with this guidance.

Principal Subsidiaries

Entities in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Book value of shares owned by the Bank (Canadian \$ in millions)
4197569 Canada Inc.	Toronto, Canada	1
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	–
Bank of Montreal Capital Markets (Holdings) Limited	London, England	94
BMO Capital Markets Limited	London, England	
Bank of Montreal Finance Ltd.	Toronto, Canada	39
Bank of Montreal Global Capital Solutions Ltd.	Calgary, Canada	13
Bank of Montreal Holding Inc.	Calgary, Canada	21,586
Bank of Montreal Holding Enterprise Inc.	Calgary, Canada	
Bank of Montreal Holding Investments Inc.	Calgary, Canada	
Bank of Montreal Securities Canada Limited	Toronto, Canada	
BMO Nesbitt Burns Corporation Limited	Montreal, Canada	
BMO Nesbitt Burns Inc. and subsidiaries	Toronto, Canada	
BMO Holding Finance, LLC	Wilmington, United States	
BMO Investments Inc. and subsidiary	Toronto, Canada	
BMO Investments Limited	Hamilton, Bermuda	
Bank of Montreal (Barbados) Limited	St. Michael, Barbados	
Bank of Montreal Insurance (Barbados) Limited	St. Michael, Barbados	
BMO (Channel Islands) Limited	Guernsey, Channel Islands	
BMO InvestorLine Inc.	Toronto, Canada	
BMO Nesbitt Burns Trading Corp. S.A.	Münsbach, Luxembourg	
BMO Service Inc.	Calgary, Canada	
Bank of Montreal Ireland plc	Dublin, Ireland	1,071
Bank of Montreal Mortgage Corporation	Calgary, Canada	1,793
BMRI Realty Investments	Toronto, Canada	
Bay Street Number Twenty-Nine Ltd.	Wilmington, United States	3
bcpbank Canada	Toronto, Canada	21
BMO Capital Corporation	Toronto, Canada	80
BMO Funding, L.P.	Chicago, United States	152
BMO (NS) Investment Company and subsidiary	Halifax, Canada	
BMO GP Inc.	Toronto, Canada	–
BMO Ireland Finance Company	Dublin, Ireland	463
BMO Life Insurance Company	Toronto, Canada	74
BMO Nevada LP	Chicago, United States	169
BMO (NS) Capital Funding Company and subsidiary	Halifax, Canada	
BMO Private Equity (Canada) Inc.	Toronto, Canada	103
BMO Equity Partners Fund Inc. and subsidiaries	Toronto, Canada	
BMO Equity Partners Management Inc.	Toronto, Canada	
BMO Nesbitt Burns Employee Co-Investment Fund I Management (Canada) Inc. and subsidiaries	Toronto, Canada	
BMO Trust Company	Toronto, Canada	
Guardian Group of Funds Ltd. and subsidiary	Toronto, Canada	
BMO (US) Lending, LLC	Chicago, United States	123
Harris Financial Corp.	Wilmington, United States	4,962
BMO Capital Markets Corp.	Wilmington, United States	
BMO Capital Markets Equity Group (U.S.), Inc. and subsidiaries	Wilmington, United States	
BMO Capital Markets Financing, Inc.	Dover, United States	
BMO Financial, Inc.	Wilmington, United States	
BMO Financial Products Corp.	Chicago, United States	
BMO Global Capital Solutions, Inc.	Chicago, United States	
Harris Bancorp Insurance Services, Inc.	Chicago, United States	
Harris Bankcorp, Inc.	Chicago, United States	
First National Investments, Inc.	Kokomo, United States	
Harris Central N.A.	Roselle, United States	
Harris Investment Management, Inc. and subsidiary	Chicago, United States	
Harris Investor Services, Inc.	Chicago, United States	
Harris Life Insurance Company	Scottsdale, United States	
Harris National Association and subsidiaries	Chicago, United States	
Harris Trade Services Limited	Hong Kong, China	
The Harris Bank N.A.	Scottsdale, United States	
Harris RIA Holdings, Inc. and subsidiaries	Wilmington, United States	
MyChoice Inc.	Toronto, Canada	–

The above is a list of all our directly held subsidiaries, as well as their directly held subsidiaries, and thereby includes all of our major operating subsidiaries. The book values of the subsidiaries shown represent the total common and preferred equity value of our holdings or our partnership interest where appropriate.

We own 100% of the voting shares of the above subsidiaries except for Bank of Montreal Finance Ltd., of which we own 50.01%, MyChoice Inc., of which we own 80% and BMO (Channel Islands) Limited, of which we own 99.96%.

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 98.9% of the outstanding non-voting shares.

Members of Performance Committee

In 2007, as part of our increased rigour on performance management, we established a new committee comprised of the heads of all lines of business and functional groups. This committee meets quarterly to discuss performance against established targets and courses of action to improve performance.

William A. Downe

President and
Chief Executive Officer
BMO Financial Group

Personal and Commercial Banking Canada

Frank J. Techar

President and
Chief Executive Officer
Personal and Commercial Banking Canada

Susan M. Brown

Senior Vice-President
Ontario Regional Division

Alex P. Dousmanis-Curtis

Senior Vice-President
Greater Toronto Division

Sandra L. Hanington

Executive Vice-President
Customer Strategies & Marketing

Gordon J. Henderson

Senior Vice-President, Insurance

François M.P. Hudon

Senior Vice-President
Quebec Division

Maurice A.D. Hudon

Senior Executive Vice-President
Personal and Commercial Banking Canada

James B. Kelsey

Senior Vice-President
Corporate Finance Division

Michael J. Kitchen

Senior Vice-President, Card and Retail Payment Services

Ted R. McCarron

Senior Vice-President
Prairies Division

Steve C. Murphy

Senior Vice-President
Atlantic Provinces Division

Richard D. Rudderham

Senior Vice-President
British Columbia Division

Personal and Commercial Banking U.S.

Ellen M. Costello

Chief Executive Officer
Harris Bankcorp, Inc.

Timothy S. Crane

President
Community Banking
Harris Bankcorp, Inc.

Peter B. McNitt

Vice-Chair
Harris Bankcorp, Inc. and Head of Business Banking

Private Client Group

Gilles G. Ouellette

President and
Chief Executive Officer
Private Client Group

Harold Hillier

Senior Vice-President and Head of BMO Asset Management and Guardian Group of Funds Ltd.

Terry A. Jenkins

Senior Vice-President and Head of Harris Private Bank, U.S.

Ed N. Legzdins

Senior Vice-President and Head of Retail Investments

Dean Manjuris

Head of Full Service Brokerage Line of Business, President and Director, Private Client Division

Graham T. Parsons

Executive Vice-President
Global Private Banking and End-to-End Strategic Initiatives

Connie A. Stefankiewicz

Vice-President and President BMO InvestorLine Inc.

BMO Capital Markets

Yvan J.P. Bourdeau

Chief Executive Officer and Head of Investment Banking Group
BMO Capital Markets

William Butt

Executive Managing Director Head of Investment and Corporate Banking Canada

Mark E. Caplan*

Executive Managing Director and Co-Head, Financial Products

David R. Casper

Executive Managing Director and Co-Head, Investment and Corporate Banking, U.S.

Patrick Cronin*

Executive Managing Director and Co-Head, Financial Products

David Fleck*

Executive Managing Director and Co-Head, Equity Products Group

Andre L. Hidi

Executive Managing Director and Head, North America Mergers and Acquisitions

Marnie J. Kinsley

Executive Managing Director and Head of Global Treasury Management

Michael Miller*

Executive Managing Director and Co-Head, Equity Products Group

Thomas V. Milroy

Co-President
BMO Capital Markets

Peter A. Myers

Executive Managing Director
Equity Capital Markets

Dominic A. Petito

Executive Managing Director and Co-Head, Investment and Corporate Banking, U.S. and Head of BMO Capital Markets, New York

Charles N. Piermarini

Executive Managing Director
Debt Products and Head of N.A. Securitization Group

Surjit S. Rajpal

Executive Managing Director
Loan Products Group and Merchant Banking

Jamie K. Thorsen

Executive Managing Director Foreign Exchange and Capital Markets China

Eric C. Tripp

Co-President
BMO Capital Markets

BMO Financial Group

L. Jacques Ménard

Chairman, BMO Nesbitt Burns and President, BMO Financial Group Quebec

Communications, Legal, Finance and Enterprise Risk and Portfolio Management

Karen E. Maidment

Chief Financial and Administrative Officer
BMO Financial Group

Thomas E. Flynn

Executive Vice-President
Finance and Treasurer and Acting Chief Financial Officer

Pierre O. Greffe

Executive Vice-President
Finance

Viki A. Lazaris

Senior Vice-President
Investor Relations

Neil R. Macmillan

Executive Vice-President and Senior Risk Officer
BMO Capital Markets

Robert L. McGlashan

Executive Vice-President and Chief Risk Officer

Wendy L. Millar

Executive Vice-President and Senior Risk Officer
Personal and Commercial Banking/Private Client Group

Andrew P.M. Plews

Senior Vice-President
Corporate Communications

Ronald B. Sirkis

Executive Vice-President
General Counsel and Taxation

Penny F. Somerville

Executive Vice-President and Senior Market Risk Officer

Human Resources

Rose M. Patten

Senior Executive Vice-President
Head of Human Resources and Senior Leadership Advisor

April L. Taggart

Senior Vice-President
Talent Management and Diversity

Gabriella R.J. Zillmer

Senior Vice-President
Performance Alignment and Compensation

Office of Strategic Management and Corporate Marketing

Joan T. Dea

Executive Vice-President
Head of Strategic Management and Corporate Marketing

Susan M. Payne

Senior Vice-President and Chief Marketing Officer

Technology and Operations

Barry K. Gilmour

Group Head, Technology and Operations

Karen L. Metrakos

Senior Vice-President
Operations

David J. Revell

Senior Vice-President
Corporate Technology Development

Glossary of Financial Terms

Allowance for Credit Losses

Represents an amount deemed adequate by management to absorb credit-related losses on loans and acceptances and other credit instruments. Allowances for credit losses can be specific or general and are recorded on the balance sheet as a deduction from loans and acceptances or, as it relates to credit instruments, as other liabilities.

Assets under Administration and under Management

Assets administered or managed by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering or managing financial institution.

Asset-backed Commercial Paper

A short-term investment with a maturity that is typically less than 180 days. The commercial paper is backed by physical assets such as trade receivables, and are generally used for short-term financing needs.

Average Earning Assets

Represents the daily or monthly average balance of deposits with other banks and loans and securities, over a one-year period.

Bankers' Acceptances (BAs)

Bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point

One one-hundredth of a percentage point.

Derivatives

Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Hedging

A risk management technique used to neutralize or manage interest rate, foreign currency, equity, commodity or credit exposures arising from normal banking activities.

Impaired Loans

Loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Innovative Tier 1 Capital

OSFI allows banks to issue instruments that qualify as "Innovative" Tier 1 capital. In order to qualify, these instruments have to be issued indirectly through a special purpose vehicle, be permanent in nature and receive acceptable accounting treatment. Innovative Tier 1 capital cannot comprise more than 20% of net Tier 1 capital, at time of issue, with 15% qualifying as Tier 1 capital and the additional 5% included in total capital.

Mark-to-Market

Represents valuation of securities and derivatives held for trading purposes at market rates as of the balance sheet date, where required by accounting rules.

Notional Amount

The principal used to calculate interest and other payments under derivative contracts. The principal amount does not change hands under the terms of a derivative contract, except in the case of cross-currency swaps.

Provision for Credit Losses

A charge to income that represents an amount deemed adequate by management to fully provide for impairment in loans and acceptances and other credit instruments, given the composition of the portfolios, the probability of default, the economic environment and the allowance for credit losses already established.

Regulatory Capital Ratios

The percentage of risk-weighted assets supported by capital, as defined by OSFI under the framework of risk-based capital standards agreed upon in 1988 at the Bank for International Settlements. These ratios are labeled Tier 1 and Total. Tier 1 capital is considered to be more permanent, consisting of common shareholders' equity together with any qualifying non-cumulative preferred shares and innovative instruments, less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and the general allowance, within prescribed limits. The assets-to-capital multiple is defined as assets plus guarantees and letters of credit, net of specified deductions (or adjusted assets), divided by total capital.

Securities Borrowed or Purchased under Resale Agreements

Low-cost, low-risk loans, often supported by the pledge of cash collateral, which arise from transactions that involve the borrowing or purchase of securities.

Securities Lent or Sold under Repurchase Agreements

Low-cost, low-risk liabilities, often supported by cash collateral, which arise from transactions that involve the lending or sale of securities.

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Corporate Governance

Our web site at www.bmo.com contains information on our corporate governance practices, including our code of conduct, *FirstPrinciples*, our *Code of Ethics for the CEO and Senior Financial Officers*, our *Director Independence Standards* and the Board and Committee Charters.

Proxy Circular

Our proxy circular contains information on each of the directors, Board Committee reports and a complete discussion of our corporate governance practices. It is published in January 2008 and is available online at www.bmo.com/investorrelations.

New York Stock Exchange Governance Requirements

A summary of the significant ways in which our corporate governance practices differ from the corporate governance practices required to be followed by U.S. domestic companies under New York Stock Exchange Listing Standards is posted on our web site.

Corporate Responsibility

The *BMO Corporate Responsibility Report*, to be released in February 2008, documents our corporate citizenship activities throughout the year. You can find more information about our corporate responsibility activities online at www.bmo.com/community.

BMO reports on the economic, social and environmental components of our corporate responsibility performance and activities according to guidelines set out by the Global Reporting Initiative. To learn more about the Global Reporting Initiative and its Sustainability Reporting Guidelines, visit www.globalreporting.org.

Shareholder Information

Common Share Trading Information during Fiscal 2007

Primary stock exchanges	Ticker	Year-end price October 31, 2007	High	Low	Total volume of shares traded
Toronto	BMO	\$ 63.00	\$ 72.75	\$ 60.21	394.7 million
New York	BMO	US\$ 66.58	US\$ 67.32	US\$ 56.80	16.2 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Ticker	Shares outstanding at October 31, 2007	2007	2006	2005	2004	2003
Common	BMO	498,562,702	\$ 2.71	\$ 2.26	\$ 1.85	\$ 1.59	\$ 1.34
Preferred Class B							
Series 3 (a)	BMO F	—	—	—	—	\$ 1.18	\$ 1.39
Series 4 (b)	BMO G	—	\$ 0.99	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Series 5 (c)	BMO H	8,000,000	\$ 1.33	\$ 1.33	\$ 1.33	\$ 1.33	\$ 1.33
Series 6 (c)	BMO I	10,000,000	\$ 1.19	\$ 1.19	\$ 1.19	\$ 1.19	\$ 1.19
Series 10 (d)	BMO V	12,000,000	US\$ 1.49				
Series 13 (e)	BMO J	14,000,000	\$ 0.96	—	—	—	—
Series 14 (e)	BMO K	10,000,000	\$ 0.50	—	—	—	—

(a) The Class B Preferred Shares Series 3 were redeemed in September 2004.

(b) The Class B Preferred Shares Series 4 were redeemed in August 2007.

(c) The Class B Preferred Shares Series 5 were issued in February 1998 and the Class B Preferred Shares Series 6 were issued in May 1998.

(d) The Class B Preferred Shares Series 10 were issued in December 2001.

(e) The Class B Preferred Shares Series 13 were issued in January 2007 and the Class B Preferred Shares Series 14 were issued in September 2007.

2008 Dividend Dates

(Subject to approval by the Board of Directors)

Common and preferred shares record dates	Preferred shares payment dates	Common shares payment dates
February 1	February 25	February 28
May 2	May 26	May 29
August 1	August 25	August 28
October 31	November 25	November 27

The Bank Act prohibits a bank from paying or declaring a dividend if it is or would thereby be in contravention of capital adequacy regulations. Currently, this limitation does not restrict the payment of dividends on Bank of Montreal's common or preferred shares.

Shareholder Administration

Computershare Trust Company of Canada, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, Computershare Investor Services PLC and Computershare Trust Company, N.A. serve as transfer agents and registrars for common shares in London, England and Golden, Colorado, respectively.

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call Bank of Montreal's Transfer Agent and Registrar at 1-800-340-5021 (Canada and the United States), or at (514) 982-7800 (international), or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1, e-mail to service@computershare.com, or fax 1-888-453-0330 (Canada and the United States) or (416) 263-9394 (international).

For all other shareholder inquiries, please write to Shareholder Services in the Corporate Secretary's Department, 19th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to corp.secretary@bmo.com, call (416) 867-6785, or fax (416) 867-6793.

Market for Securities of Bank of Montreal

The common shares of Bank of Montreal are listed on the Toronto and New York stock exchanges. The preferred shares of Bank of Montreal are listed on the Toronto Stock Exchange.

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common shares to reinvest cash dividends in common shares of Bank of Montreal without the payment of any commissions or service charges.

Shareholders of Bank of Montreal may also purchase additional common shares of Bank of Montreal in amounts up to \$40,000 per fiscal year. Full details of the plan are available from Computershare Trust Company of Canada or Shareholder Services.

Direct Dividend Deposit

Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada or the United States that provides electronic funds transfer facilities.

General Information

For general inquiries about company news and initiatives, or to obtain additional copies of the Annual Report, please contact the Corporate Communications Department, 302 Bay Street, 10th Floor, Toronto, Ontario M5X 1A1, or visit our web site at www.bmo.com.

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, March 4, 2008 at 9:30 a.m. (Eastern Standard Time) at Fairmont Le Château Frontenac, Quebec City, Quebec.

Institutional Investors and Research Analysts

Institutional investors or research analysts who would like to obtain financial information should write to the Senior Vice-President, Investor Relations, 18th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to investor.relations@bmo.com, call (416) 867-6656, or fax (416) 867-3367. Alternatively, please visit our web site at www.bmo.com/investorrelations.

Corporate Information

This BMO Financial Group 2007 Annual Report is available for viewing/printing on our web site at www.bmo.com. For a printed copy, please contact:

Corporate Communications Department
BMO Financial Group

302 Bay Street, 10th Floor
Toronto, Ontario M5X 1A1
(On peut obtenir sur demande un exemplaire en français.)

Online Information

BMO Financial Group is committed to open and full financial disclosure and best practices in corporate governance. We invite you to visit our web site at www.bmo.com/investorrelations to find out more about our organization, our governance practices, our continuous disclosure materials including our Quarterly Financial Releases, our Annual Information Form as well as our Notice of Annual Meeting of Shareholders and Proxy Circular. Filings are accessible on the Canadian Securities Administrators' web site at www.sedar.com, and on the EDGAR section of the SEC's web site at www.sec.gov.

About the production of our Annual Report

In an era of increasing globalization, BMO is committed to contributing positively to communities and the environment by minimizing impacts and striving to understand and reduce our environmental footprint.

All paper in BMO's Annual Report came from well-managed forests or other controlled sources certified in accordance with the international standards of the Forest Stewardship Council (FSC). The report contains 30% post-consumer paper (recycled), was manufactured in Canada, is EcoLogo certified and was manufactured using biogas energy.



The use of eco-friendly recycled paper helps the environment in a number of ways. The following savings were achieved by using FSC and recycled papers for this Annual Report:



This Annual Report is Carbon Neutral

This BMO Financial Group Annual Report 2007 is carbon neutral. The carbon emissions resulting from the manufacturing, printing and transportation of this publication have been balanced out using Zerofootprint's forest restoration carbon offsets and verified to the ISO 14064-2 standard.

About FSC

The Forest Stewardship Council (FSC) is an international organization that brings people together to find solutions that promote environmentally appropriate, socially beneficial and economically viable management of the world's forests. Through consultative processes with its diverse group of stakeholders, FSC sets international standards for responsible forest management.

The FSC trademark provides international recognition for organizations that support responsible forest management, and its product label allows consumers worldwide to recognize their products. Over the past 13 years, over 90 million hectares in more than 70 countries have been certified according to FSC® standards. Several thousand products are now manufactured using FSC-certified wood and carrying the FSC label. FSC operates through its network of National Initiatives in 45 countries.

- TM® Trademark/registered trademark of Bank of Montreal
- TM* Trademark of BMO Nesbitt Burns Corporation Limited
- ®* "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited
- ®† Registered trademark of Harris N.A.
- ®‡ Registered trademark of AIR MILES International Trading B.V.
- ®§ Registered trademark of MasterCard International Incorporated
- ®|| Registered trademark of Skate Canada
- ®¶ Registered trademark of Kids Help Foundation
- ®¤ Registered trademark of Forest Stewardship Council, A.C.
- ®© Registered trademark of The McGraw-Hill Companies, Inc.
- ®® Registered trademark of MIS Quality Management Corp.
- TM1 Trademark of Bullfrog Power Inc.

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